

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1088
 Ways and Means

(Delegate Palakovich Carr, *et al.*)

Effective Corporate Tax Rate Transparency Act of 2020

This bill requires a publicly traded corporation required to file a Maryland corporate income tax return to include a confidential statement that identifies the corporation’s effective tax rate. The statement must provide an itemized explanation of how the effective tax rate was calculated and a comparison of the effective tax rate of the corporation both before and after the application of any credits, deductions, subtraction modifications, or other adjustments. The Comptroller must collect this information and report specified information to the Governor and the General Assembly by March 1 each year. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund expenditures increase by \$98,000 in FY 2021 due to one-time implementation costs at the Comptroller’s Office. Revenues are not affected.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	98,000	0	0	0	0
Net Effect	(\$98,000)	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A publicly traded corporation includes any subsidiary of the corporation. The “effective tax rate” means a percentage that equals the quotient of the State income tax liability of a publicly traded corporation and the book income of the corporation determined in accordance with generally accepted accounting principles and as allocated to the State. The statement required under the bill must be made under oath and signed in the same manner as required for income tax returns and is subject to audit by the Comptroller.

Current Law: A corporate income tax rate of 8.25% is applied to a corporation’s Maryland taxable income. In general, the Maryland corporate income tax is computed using federal provisions to determine income and deductions.

Every Maryland corporation and every corporation that conducts business within Maryland, including public service companies and financial institutions, are required to pay the corporate income tax. The tax base is the portion of federal taxable income, as determined for federal income tax purposes and adjusted for certain Maryland addition and subtraction modifications, that is allocable to Maryland. Federal taxable income, for this purpose, is the difference between total federal income and total federal deductions (including any special deductions).

The next step is to calculate a corporation’s Maryland taxable income. The Maryland taxable income of a corporation that operates wholly within the State is equal to its Maryland modified income. Corporations engaged in multistate operations are required to determine the portion of their modified income attributable to Maryland, based on the amount of their trade or business carried out in Maryland.

Prior to tax year 2018, corporations were generally required to use either a three-factor apportionment formula of payroll, property, and sales, with sales double weighted or, in the case of a manufacturing corporation, a one-factor formula based on sales, referred to as a single sales factor formula. The apportionment factor is then multiplied by the corporation’s modified income to determine Maryland taxable income.

Chapters 341 and 342 of 2018 phase in a requirement that all corporations subject to the corporate income tax, with an exception for specified worldwide headquartered companies, use a single sales factor formula to apportion income to the State.

The Maryland tax liability of a corporation equals the Maryland taxable income multiplied by the tax rate, less any tax credits.

State Expenditures: General fund expenditures increase by \$98,000 in fiscal 2021, which accounts for the bill’s July 1, 2020 effective date. This estimate reflects one-time costs of

\$25,000 in contractual services to create a new form and additional computer programming expenses of \$73,000 for data collection and aggregation. The Comptroller's Office is transitioning from its SMART system to a new integrated tax system, the Compass project. Thus, a new captured field on the corporate income tax return will need to be added to both the SMART system and the Compass project.

Additional Information

Prior Introductions: SB 480 of 2019, a similar bill, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 361 of 2019, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Legislative Services

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