

**Department of Legislative Services**  
 Maryland General Assembly  
 2023 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 741 (Delegate Hartman, *et al.*)  
 Ways and Means

**Corporate Income Tax - Rate Reduction (Economic Competitiveness Act of 2023)**

This bill reduces the corporate income tax rate from 8.25% to 6.25% by tax year 2027. The change is phased in over four tax years (7.75% for tax year 2024; 7.25% for tax year 2025; and 6.75% for tax year 2026). **The bill takes effect July 1, 2023.**

**Fiscal Summary**

**State Effect:** In FY 2024, general fund revenues decrease by an estimated \$30.9 million, Higher Education Investment Fund (HEIF) revenues decrease by an estimated \$2.4 million, and Transportation Trust Fund (TTF) revenues decrease by an estimated \$6.8 million. In addition, TTF expenditures for local highway user revenue grants decrease by an estimated \$1.1 million in FY 2024. Future years reflect annualization, the current corporate income tax revenue forecast, and phased decreases in the corporate income tax rate.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$30.9)	(\$137.4)	(\$253.6)	(\$379.7)	(\$486.1)
SF Revenue	(\$9.2)	(\$43.0)	(\$83.0)	(\$124.3)	(\$144.9)
SF Expenditure	(\$1.1)	(\$5.8)	(\$12.6)	(\$18.8)	(\$16.7)
Net Effect	(\$39.0)	(\$174.6)	(\$324.1)	(\$485.2)	(\$614.3)

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

**Local Effect:** Local highway user revenues decrease by an estimated total of \$54.9 million over FY 2024 through 2028, as discussed below. Local expenditures are not directly affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** Each Maryland corporation and every other corporation that conducts business within Maryland, including public service companies and financial institutions, is subject to the Maryland corporate income tax.

### *Tax Rate and Base*

Under Maryland's corporate income tax, a tax rate of 8.25% is applied to a corporation's Maryland taxable income. Maryland taxable income is federal taxable income (federal gross income minus allowable federal deductions) adjusted for Maryland addition and subtraction modifications (Maryland modified income) and allocated to the State based on the applicable apportionment factor.

### *Apportionment of Income to Maryland*

*Unistate Corporations:* For a corporation that operates wholly within the State, Maryland taxable income is equal to the corporation's Maryland modified income. In other words, the corporation must allocate to the State all of its Maryland modified income for purposes of determining Maryland taxable income.

*Multistate Corporations:* A corporation engaged in multistate operations must determine the portion of the corporation's Maryland modified income that is allocable to Maryland using a specified apportionment factor. The apportionment factor is then multiplied by Maryland modified income to calculate Maryland taxable income. Pursuant to Chapters 341 and 342 of 2018, beginning in tax year 2022, all corporations subject to Maryland corporate income tax (with the exception of specified worldwide headquartered companies) must use a single-factor apportionment formula based on sales (single sales factor formula) to determine Maryland taxable income.

Prior to the enactment of Chapters 341 and 342, taxable multistate corporations other than manufacturing corporations were generally required to calculate Maryland taxable income using a three-factor apportionment formula based on payroll, property, and a double-weighted sales factor. The Acts phased in the single sales factor formula over tax years 2018 to 2022.

### *Distribution of Corporate Income Tax Revenues*

The majority of corporate income tax revenues are distributed to the general fund, while 6% is distributed to HEIF and an additional specified percentage is distributed to the Gasoline and Motor Vehicle Revenue Account (GMVRA) within TTF. Chapter 240 of 2022 increased the percentage of corporate income tax revenues that is distributed to GMVRA (minus specified distributions for administrative costs) from 17.2% to 20% for

fiscal 2024, 21% for fiscal 2025, 22% for fiscal 2026 and 2027, and 20% for fiscal 2028 and beyond. Chapter 240 also increased the percentage of GMVRA funds that is distributed to local governments in the form of local highway user revenue grants.

According to the December 2022 revenue estimates, corporate income tax revenues are projected to total \$1.86 billion in fiscal 2023.

**State/Local Revenues:** Corporate income tax revenues decrease significantly beginning in fiscal 2024 due to the bill’s reductions to the corporate income tax rate. **Exhibit 1** shows the bill’s estimated effect on State and local revenues in fiscal 2024 through 2028. As shown in the exhibit, in fiscal 2024, general fund revenues decrease by an estimated \$30.9 million, HEIF revenues decrease by an estimated \$2.4 million, and TTF revenues decrease by an estimated \$6.8 million. Future years reflect annualization, the December 2022 corporate income tax forecast, and phased reductions in the corporate income tax rate.

As noted above, a portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues). Thus, local highway user revenues decrease by an estimated \$1.1 million in fiscal 2024.

---

**Exhibit 1**  
**Projected Effect on State and Local Revenues**  
**Fiscal 2024-2028**  
**(\$ in Millions)**

	<u><b>FY 2024</b></u>	<u><b>FY 2025</b></u>	<u><b>FY 2026</b></u>	<u><b>FY 2027</b></u>	<u><b>FY 2028</b></u>
<b>State Revenues</b>					
General Fund	(\$30.9)	(\$137.4)	(\$253.6)	(\$379.7)	(\$486.1)
HEIF	(2.4)	(10.8)	(20.2)	(30.2)	(37.9)
TTF	(6.8)	(32.1)	(62.8)	(94.1)	(107.1)
<b>Total</b>	<b>(\$40.1)</b>	<b>(\$180.4)</b>	<b>(\$336.6)</b>	<b>(\$504.0)</b>	<b>(\$631.0)</b>
<b>Local Revenues</b>					
LHUR	(\$1.1)	(\$5.8)	(\$12.6)	(\$18.8)	(\$16.7)

HEIF: Higher Education Investment Fund

LHUR: local highway user revenues

TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

The bill is not expected to affect MDOT's ability to meet minimum debt service coverage requirements during the estimate period.

**State Expenditures:** TTF expenditures for local highway user revenue grants decrease by an estimated total of \$54.9 million over fiscal 2024 through 2028 – \$1.1 million in fiscal 2024; \$5.8 million in fiscal 2025; \$12.6 million in fiscal 2026; \$18.8 million in fiscal 2027; and \$16.7 million in fiscal 2028.

---

### **Additional Information**

**Prior Introductions:** Similar legislation has been introduced within the last three years. See HB 869 of 2020.

**Designated Cross File:** None.

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

**Fiscal Note History:** First Reader - February 20, 2023  
rh/jrb

---

Analysis by: Elizabeth J. Allison

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510