



THE MARYLAND HOUSE OF DELEGATES  
ANNAPOLIS, MARYLAND 21401

**Testimony in Support of HB 1088  
Effective Corporate Tax Rate Transparency Act of 2020**

This bill would require publicly traded corporations to calculate and report their effective tax rate to the Comptroller's Office. The Comptroller would issue an annual report of this data on an aggregate, anonymous basis, including a discussion of the major factors that contributed to the effective tax rates.

**Some Corporations Aren't Paying Their Fair Share of Taxes**

Tax fairness should be a foundational principle of our tax system. As policymakers, however, we currently have very little information about the fairness of our tax system.

At the federal level, the non-partisan Institute on Taxation and Economic Policy has investigated effective corporate tax rates and the results are troubling. They analyzed data reported by Fortune 500 companies to the federal Securities and Exchange Commission.<sup>1</sup> That analysis found that in 2018, profitable American corporations paid an average effective federal income tax rate of 11.3%—far below the federal statutory rate of 21%. Moreover, 91 corporations did not pay *any* federal income taxes in 2018, including several of the largest corporations in Maryland (Amazon, IBM, FedEx, Honeywell, and Starbucks). Another 56 companies paid effective tax rates between 0% and 5%, including some of the largest corporations in Maryland (UPS and Bank of America).

In terms of state tax data, we have even less information. However, thanks to the efforts of Senator Pinsky, we do know that 51 of the largest 150 companies in Maryland paid no income tax in 2015.<sup>2</sup>

**The Difference between Actual and Effective Tax Rates**

According to Andrew Schaufele, Director of the Maryland Bureau of Revenue Estimates: “there are several legitimate reasons for paying no income tax in any given year, including having no profits in that tax year, using carry-forward or carry-back losses to reduce income, and using income tax credits to reduce liability. There are also illegitimate reasons for paying no income tax in any given year.”<sup>2</sup>

<sup>1</sup> “Corporate Tax Avoidance in the First Year of the Trump Tax Law,” 2019, Institute on Taxation and Economic Policy.

<sup>2</sup> Maryland Comptroller letter to Senator Paul Pinsky. January 22, 2018.

While the actual corporate income tax rate in Maryland is 8.25%, many companies located or operating in Maryland are able to pay a lower rate by taking advantage of:

- various loopholes in Maryland's laws (like our failure to require combined reporting),
- various Maryland-specific tax incentives (like excessively generous apportionment rules and tax credits), and
- federal tax breaks that flow into Maryland's tax code.

## **What This Bill Does**

The State of Maryland currently has no mechanism that allows policymakers and the public to know the effective tax rates for corporations. It is important that this data be reported in an aggregate, anonymous way so that legislators can better understand Maryland's actual corporate tax rates, the financial effects of tax credits on Maryland tax revenue, and how Maryland compares to other states in these metrics.

This bill would require publicly-traded corporations to include with their state income tax return a statement that reports their effective tax rate. The statement must include an itemized explanation of how it was calculated, including their book income and the book value of credits, deductions, subtraction modifications, carry forward of prior losses, or other adjustments used to determine their income tax liability.

There is precedent for requiring such a supplemental filing. From 2006 to 2010, corporations in Maryland were required to file a pro forma report to show the potential effects of combined reporting.<sup>3</sup>

This legislation would require the Comptroller to compile the data and prepare an annual report that identifies the average effective tax rate for all publicly traded corporations, as well as a breakdown of the distribution of effective tax rates. The report will also provide information on the types of businesses and their sizes. In addition, the report will analyze the cause of low tax rates, such as the apportionment formula, carried forward losses, or state tax credits.

This legislation provides sorely needed transparency to elected officials and the public about Maryland's corporate tax climate. It gives Maryland a means to compare its true tax rates to those of other states and will help expose costly loopholes and extraneous credits that reduce state revenues.

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<sup>3</sup> "Corporate Income Tax Study," Comptroller of Maryland, 2009.  
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