

COMBINED REPORTING

Comptroller Again Confirms PMEF Research

Comptroller's Oct. 2009 Report Shows Combined Reporting Would Significantly Improve Collection of Md. Corporate Income Tax by Leveling the Playing Field Between Tax-Evading Multi-State Corporations and Smaller, Md.-Based Companies

Over the past two decades, revenues from Maryland's corporate income tax – which is supposed to equal 8.25 percent of corporate profits – have not nearly kept pace with robust corporate profits.

Corporate underpayment of income taxes stems mostly from proliferating tax loopholes invented by corporate accountants. In particular, big multistate corporations like Wal-Mart move profits out of the states in which they are earned and into states in which they will be taxed at lower rates – or not at all. They do this by creating subsidiaries – often just a mail slot with no employees – in “tax haven” states like Delaware and then shifting funds to them in the form of fake royalties, fake rent, and other sham transactions.

[A majority of states that levy a corporate income tax – but not yet Maryland – have comprehensively closed these loopholes by enacting "combined reporting."](#) Combined reporting (CR) embodies a simple, mainstream value: a corporation should not be allowed stash profits in multiple (often phony) subsidiaries in an effort to beat taxes while simultaneously declaring all these same profits to Wall Street in an effort to boost its stock. CR requires a corporation to have a single set of books and therefore report to the Comptroller all its income, regardless of where it is deposited. And CR prevents a corporation from getting tax breaks for loaning itself money. Thus, CR treats corporations like real persons, who may not create fictitious subsidiaries of themselves in order to hide income from the Comptroller or engage in sham transactions.

There's no better example of our lawmakers in the General Assembly catering to their big corporate campaign contributors at the expense of regular voters than their repeated refusal to enact CR.

But in October 2009 it became harder for lawmakers to dither. That's because the [Comptroller issued a study of combined reporting's effect by analyzing real corporate tax returns from 2006.](#) This study confirms what the Progressive Maryland Education Fund (PMEF) has long concluded: namely, that CR would:

1. Recoup between \$100 million and \$170 million annually in evaded Maryland corporate income tax; and

2. Do so primarily by leveling the playing field between big, multi-state, tax-evading corporations like Wal-Mart vis-a-vis smaller, mostly Maryland-based companies.

Let's examine PMEF's claim #1. The comptroller's report concludes that CR, depending on whether it is implemented under Joyce accounting rules or Finnegan accounting rules, would have recouped between \$109 and \$170 million in 2006. That conclusion almost perfectly echoes earlier PMEF research: in a [2004 report](#) PMEF forecast CR would recoup on average \$175 million per year; and in a [2007 Fact Sheet](#) we forecast it would recoup at least \$100 million per year.

Granted, as the Comptroller's report points out, 2006 was a year of robust corporate profits and thus the revenue CR would have collected in 2006 might surpass the yield in other years. But this caveat should not obscure the fact that over the course of many years corporate profits have continued to climb (even as median family income stagnates) so that over the long run there is no doubt CR would recoup for the Maryland treasury a vast amount of evaded corporate income tax regardless of annual oscillations. Moreover, the Comptroller's report finds that CR would have increased the yield in 2006 by between 12.5% (Joyce accounting rules) and 19.5% (Finnegan rules). So there seems little doubt that CR would boost the corporate income tax yield by a similar percentage in most years regardless of annual fluctuations in the gross dollar amount collected.

To examine PMEF's claim #2, turn to the [tables on pp. 4-5 in the Comptrollers' report](#). Those tables show a very strong correlation between size of company and its likelihood of being a tax "winner" or "loser" under CR. Specifically, the bigger the size of the company, the more likely it would pay more Maryland income tax under CR. Of course, the larger a company, the more likely it is a multi-state corporation (or expressed differently, the less likely it is a uni-state, Maryland-specific company). Thus, the tables on pp. 4-5 confirm a second key earlier PMEF research finding: that CR recoups almost all of the new revenue from large, multi-state companies (like Wal-Mart), not from smaller, mom-and-pop stores that likely do business only in Maryland. PMEF makes this argument on [p. 6 of our 2004 report](#) and [p.2 of our 2007 Fact Sheet](#).

And what did other analysts say about CR over the years? [General Assembly analysts said CR would bring in only approximately \\$40 million per year.](#) And the [Chamber of Commerce said CR's effect is uncertain – and that it could even lose Maryland money!](#) ***WRONG! (We never said PMEF is a gloat-free zone.)***

With so much evidence of CR's success in more than half the states that collect corporate income tax, with the Comptroller's new report based on actual Maryland tax returns, and with our state facing a big budget deficit, lawmakers in Annapolis have no more excuses to delay implementing CR. If they continue to stonewall, there is only one possible explanation: they are so corrupted by campaign contributions from big corporate special interests that they would rather let multi-state corporations like Wal-Mart evade Maryland taxes than collect revenue to blunt further savage budget cuts to public schools and health care and Bay cleanup. Will our lawmakers do right by regular voters – or will they continue to kowtow to their big, tax-evading campaign contributors?