

## **PRESS RELEASE**

May 10, 2004

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### ***PROGRESSIVE MARYLAND, LOCAL BUSINESS OWNERS CALL ON GOV. EHRLICH TO FINALLY CLOSE THE DELAWARE CORPORATE TAX LOOPHOLE***

**Annapolis, MD.** At a press conference held today at Free State Press, Inc., an Annapolis printing shop, Maryland-based business owners called on Gov. Bob Ehrlich to sign into law a bill that would close the Delaware Holding Company corporate tax loophole. The entrepreneurs, mostly owners of small businesses, represent a variety of sectors, including retail, service, printing, and insurance.

A state court declared last summer that use of the loophole is illegal. But big corporations continue to exploit it because the comptroller only has the resources to prosecute a relatively handful at any given time.

State fiscal analysts estimate that closing the loophole would save the Treasury about \$45 million per year. Most independent analysts – citing a recent report by the Comptroller revealing that 2/3 of the 130 biggest corporations in Maryland pay no income tax at all – believe the figure is much higher. Companies featured in the Comptroller's report include Wal-Mart, General Motors, and Safeway.

The bill would block the ability of corporations to set up fake firms – often only a mail slot with no employees -- in Delaware and other jurisdictions, which “own” the name and logos of the parent company. To cheat on its taxes, the parent company, claiming that it must pay a “royalty fee” to the fake firm for the use of its own name, sends its earnings to Delaware before the Maryland comptroller can tax them.

The business owners also urged the Governor to veto a related bill that would grant abusers of the Delaware loophole amnesty on much of the back taxes and penalties they owe the state. The Comptroller – who strongly opposes amnesty – estimates that the bill, if enacted, would deny the Treasury about \$88 million.

The Ehrlich Administration has said repeatedly that the Governor is undecided about both bills.

The business owners at the press conference stressed that a further deterioration of the state's fiscal crisis – the structural deficit is estimated at \$800 million for next year – would worsen Maryland's business climate by denying funding for needed roads, transit, schools, and public safety.

Several business owners also said that the loophole puts them at unfair competitive disadvantage vis-à-vis giant national chain stores because the latter pay no income taxes at all. In effect the national megacorporations are free riders: they get all the benefits of doing business in Maryland's lucrative market without paying for the schools that educate their workers, the roads that bring customers to their stores, and the police and firefighters who protect their property.

Progressive Maryland, which organized the press conference, released a report showing that of the big multistate corporations featured in the Comptroller's report on corporate tax cheaters, 105 out of 130 were hugely profitable in 2001 and 2002, the years covered in the report. Thus, very few of the companies in question can claim that they paid no taxes during those years due to losses stemming from the recession. Instead, they paid no taxes because they invent ever more tax-cheating scams, the biggest of which is probably the Delaware Holding Company loophole.

“Considering that a state court found this loophole to be illegal, considering that the legislation to close it is Gov. Ehrlich's own bill, and considering that the Governor built its anticipated revenue into his own budget, it's bizarre that he is now threatening to veto it,” said Sean Dobson, deputy director of Progressive Maryland. “Nobody seriously argues that use of a Delaware HDC for tax-avoidance is legitimate business activity. Unfortunately, then, any reasonable observer would have to conclude that Ehrlich is waffling due to intense political pressure from his biggest campaign contributors, many of which abuse the loophole.”

As proof, Progressive Maryland released research showing that the corporations in the comptroller's report gave Ehrlich \$90,900 for his 2002 gubernatorial campaign. Dobson stressed that the real amount contributed was probably much higher because corporations often launder most of their political contributions through individual top executives and their families.

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