MARYLAND FAIR FUNDING COALITION

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# Corporate loopholes and out-of-date tax system cost Maryland $2.8 billion in lost revenue over five years

***New analysis quantifies revenue that could be used to pay for Kirwan recommendations***

Maryland missed out on $2.8 billion in tax revenue over the past five years because of corporate loopholes and other state-sponsored benefits that allow many big corporations and the wealthiest Marylanders to avoid state taxes, according to a new analysis by the Maryland Center on Economic Policy. The analysis comes as the Maryland General Assembly is determining how to generate revenue to pay for the education reforms advanced by the Kirwan Commission and other state priorities.

The analysis, which looks at revenues from 2014 to 2018, underscores the opportunity for the General Assembly to act this session to strengthen the state's tax system by closing major corporate loopholes, ending unproductive tax breaks for big business and taking steps to make sure the wealthiest pay their fair share of taxes. The analysis can be found here.

"We are leaving so much revenue on the table at the same time we are working to address major community needs. It's a no-brainer for the legislature to close these loopholes and make sure everyone, including big business and the wealthy, pay their fair share to support schools that provide all Maryland children a great education." said Nikki Thompson, manager of the Maryland Fair Funding Coalition, a statewide group of more than two dozen organizations committed to building a stronger and fairer tax system.

The analysis found that:

- Loopholes allowing multi-state corporations to avoid Maryland taxes cost the state $515 million over the five years from 2014 to 2018. A key step would be to pass pending legislation to require corporations to do "combined reporting" revenue from all subsidiaries and would lead to more than $120 million in annual revenue. Twenty-eight other states and the District of Columbia already require combined reporting, ensuring that corporations operating in those states pay a fair share of income taxes.
- A loophole allowing large companies to avoid corporate taxes by organizing as LLCs or other "pass-through" structures has cost the state $1.3 billion over the five-year period. Closing this loophole would not affect small LLCs and would generate at least $300 million a year.

- Ineffective subsidies going to special interests cost the state $194 million in the five-year period. State fiscal analysts have determined these handouts are unnecessary or fail to produce the desired economic results – but special interests have beaten back attempts to end or reform them.
- Affluent Marylanders have benefited significantly from capital gains tax reductions passed by Congress. Maryland could have collected $455 million over the five-year period by imposing a small tax rate increase on those capital gains to offset some of the enormous benefits handed down by Congress in 2017.
- Investment fund managers have benefited enormously from federal tax treatment of their income stream. The state lost $209 million over the five-year period by not imposing a reasonable tax on this "carried interest" income to make up for the hugely favorable federal tax treatment. This would apply only to wealthy investment professionals.
- A change in the estate tax gave major new benefits to the wealthiest estates – and cost the state $148 million in lost revenue in the five-year period. Legislation would undo that change and exempt $1 million of an estate from state taxation (instead of the $5 million exemption now in place.) This would affect relatively few wealthy estates a year but would generate significant revenue.

"Maryland's current revenue system has significant shortcomings, but we can make it more effective and more equitable if we take a few steps to eliminate corporate loopholes, ineffective tax subsidies, and other special interest tax breaks. It is especially vital that lawmakers work to fix our tax code this year, as they consider major new investments in world-class public schools," the analysis concludes. "These new investments have potential to build a brighter future for children across Maryland, and it is essential that we back them with sufficient resources rather than repeat our past mistakes."