Making Sure Big Corporations Pay Their Fair Share

Combined Reporting is a Crucial Reform for Maryland

Many large multi-state corporations slash or eliminate the taxes they pay to Maryland through accounting strategies that take advantage of weaknesses in our tax law. How? They shift profits made in our state onto the books of subsidiaries located in other states where business taxes are lower or nonexistent.

This deprives Maryland of revenue needed for critical services like education and health care, or forces others in the state to pay higher taxes to make up the difference. Those engaging in this practice gain an unfair advantage over companies doing business solely in Maryland.

A reform called "combined reporting" prevents companies from shortchanging their states. In 23 states and the District of Columbia, companies are required to report *all* the income made by *all* their subsidiaries, and then pay the state what's legitimately owed -- based on their actual activity in the state.

It would bring Maryland tens of millions of dollars a year. That's how much the state loses to tax avoidance by big companies shifting profits elsewhere. The state Comptroller has estimated that if combined reporting had been in effect in 2007, we would have collected $92 million to $144 million in additional tax revenues. The absence of these revenues strains our schools, roads, hospitals, and other areas crucial to our quality of life and our economic viability.

It would help establish a level playing field for Maryland's local businesses. Smaller, Maryland-based businesses don't have the ability to engage in interstate income-shifting to avoid paying taxes here. Reforming the system would help local businesses compete, and make sure big multi-state firms pay for the services that help them do business in Maryland.

It's a proven reform. Between 1990 and 2007, of the eight states that saw manufacturing job gains, seven required combined reporting. Most of the large corporations that would be affected by reform in Maryland quite happily maintain facilities and workers in numerous combined-reporting states year-in and year-out.

At a time when Maryland's families and local businesses are struggling, we can't afford large corporations not paying their fair share. Maryland continues to face massive revenue shortfalls as a result of the national recession, even as the need for services rises. Trying to solve the problem only through cuts in spending will mean too little for investments in education, health care, public safety, and other services essential for a strong economic recovery and a prosperous future.

Combined reporting is part of a balanced approach to make sure Maryland can stay a great place to live, work, and do business.