FOR IMMEDIATE RELEASE • NOVEMBER 20, 2007

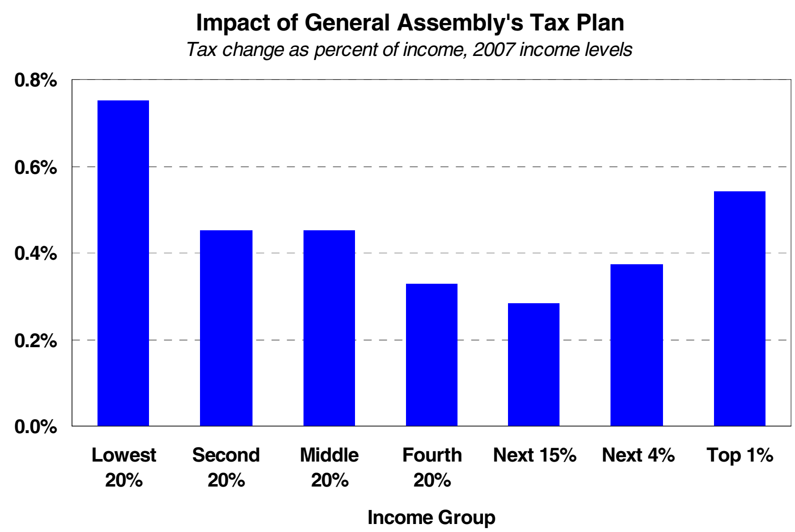
ITEP

Institute on Taxation and Economic Policy
1616 P Street, NW • Washington, DC 20036 • www.itepnet.org
CONTACT: Matt Gardner 202.299.1066 x24

Maryland Assembly's Tax Plan: More Revenue, Less Fairness

Victory for Tax Adequacy, Missed Opportunities on Tax Equity and Essential Reforms

The tax plan approved by the Maryland General Assembly on Monday will help provide the revenue necessary to fund vital public services in Maryland, but, according to the latest analysis from the Institute on Taxation and Economic Policy (ITEP), working families will bear the brunt of the tax changes contained in the plan. All told, taxes for the poorest Marylanders will rise, on average, by more than 0.7 percent of their incomes under the Assembly's plan, while taxes for the wealthiest one percent of Marylanders will climb by just over 0.5 percent of their incomes.



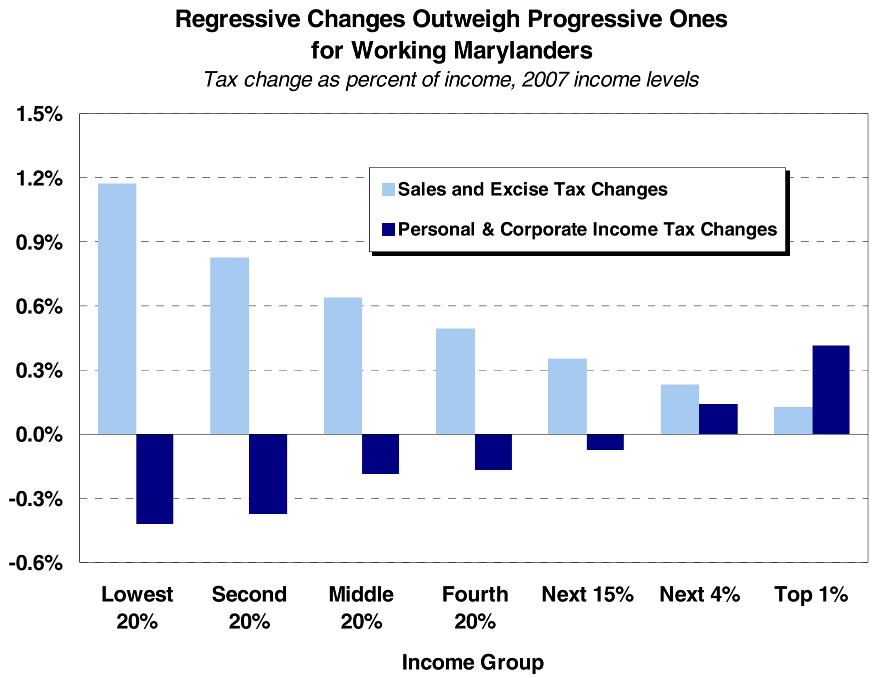
"Maryland lawmakers faced a daunting tax reform challenge this fall—closing a multi-billion-dollar budget deficit without making the state's already-regressive tax system even more unfair," said ITEP Director Matt Gardner. "While the agreed-upon tax changes achieve the first of these goals admirably, the Assembly's plan forces low-income families to shoulder even more of the cost of funding public services, while continuing to allow a few of the most profitable corporations to avoid paying their fair share. Redressing these inequities should be a priority for lawmakers in their 2008 legislative session."

In brief, ITEP's analysis of the Assembly's tax plan finds that:

- Marylanders in the poorest 20 percent of the income distribution - families and individuals with incomes under $20,300 in 2007 - will experience a tax increase averaging nearly 0.8 percent of their income under the bills approved by the Assembly on Monday morning.
- Taxpayers in the middle of the income distribution - with incomes averaging $49,000 in 2007 - will see an average tax increase of just over 0.4 percent of their income.
- The wealthiest 1 percent of Marylanders, on the other hand, will have their taxes go up by amount equal to just over 0.5 percent of income. Taxpayers in this group - who have disproportionately benefitted from federal tax cuts in place since 2001 - are expected to have average incomes of nearly $1.6 million in 2007.

- The distribution of the tax changes contained in the Assembly's bills stands in contrast to the proposal originally put forward by Governor O'Malley. Under the Governor's plan, the richest 1 percent of taxpayers would have paid an additional 1 percent of their incomes in taxes, while the poorest 20 percent of taxpayers would have paid about one-third of one percent of their incomes in additional taxes.

The regressive distribution of the Assembly's tax plan is due to its relatively high reliance on changes in the sales tax and its failure to offset the impact of those changes on low-income individuals and families through further changes in the personal income tax. Of the $1.4 billion in additional tax revenue that the Assembly's plan is projected to yield in fiscal year 2009, two-thirds—or over $900 million—will come in the form of higher sales taxes. (The Assembly's plan both increases the sales tax rate from 5 to 6 percent and subjects some services to the tax for the first time.) Sales taxes are inherently regressive since low-income people must dedicate most, if not all, of their incomes to consumption, while people with higher-incomes may be able to set aside some of their incomes in savings.



In comparison, the Assembly's plan looks to the personal income tax for just $30 million in new revenue—or about 2 percent of the total new revenue the plan will produce. While the personal income tax changes approved by the Assembly—such as higher exemptions for some taxpayers and improvements to the state's refundable Earned Income Tax Credit—will make that particular tax more fair, they come up short when stood next to similar provisions in the House's version of the budget blueprint or in the Governor's original proposal. Had the Assembly's plan, like the House and the Governor, set higher tax rates for the wealthy few, the additional revenue could have been used to mitigate the overall impact of the plan on low- and moderate-income workers and their families.

Ultimately, the sales and excise tax changes found in the Assembly's bills will produce a tax increase equal to 1.2 percent of total income for the poorest fifth of Marylanders. The personal income changes will yield a reduction of 0.4 percent of income, not nearly enough to compensate.

"As the Assembly resumes its regular deliberations in 2008, lawmakers will have the opportunity to revisit some of the choices that they made in the heat of the special session," observed Gardner. "With more time, they should be able to capitalize on the opportunities to improve Maryland's tax system that they missed over the last month."

MISSED OPPORTUNITIES

Maryland lawmakers missed three important opportunities to improve the state's tax system during this month's special session:

- ***Adopting combined reporting*** - Now used in over twenty states, combined reporting prevents profitable businesses from using accounting schemes to shift income out of state so that they can avoid taxation.
- ***Broadening the sales tax base*** - Services now comprise 60 percent of all consumption, yet Maryland still fails to tax most services; taxing services will be essential to sustaining the sales tax over the long run.
- ***Improving fairness*** - In abandoning the Governor's sales tax credit and his expansion of income tax brackets - and by ignoring other targeted changes - the Assembly's tax plan worsens Maryland's already regressive tax system.