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For Immediate Release
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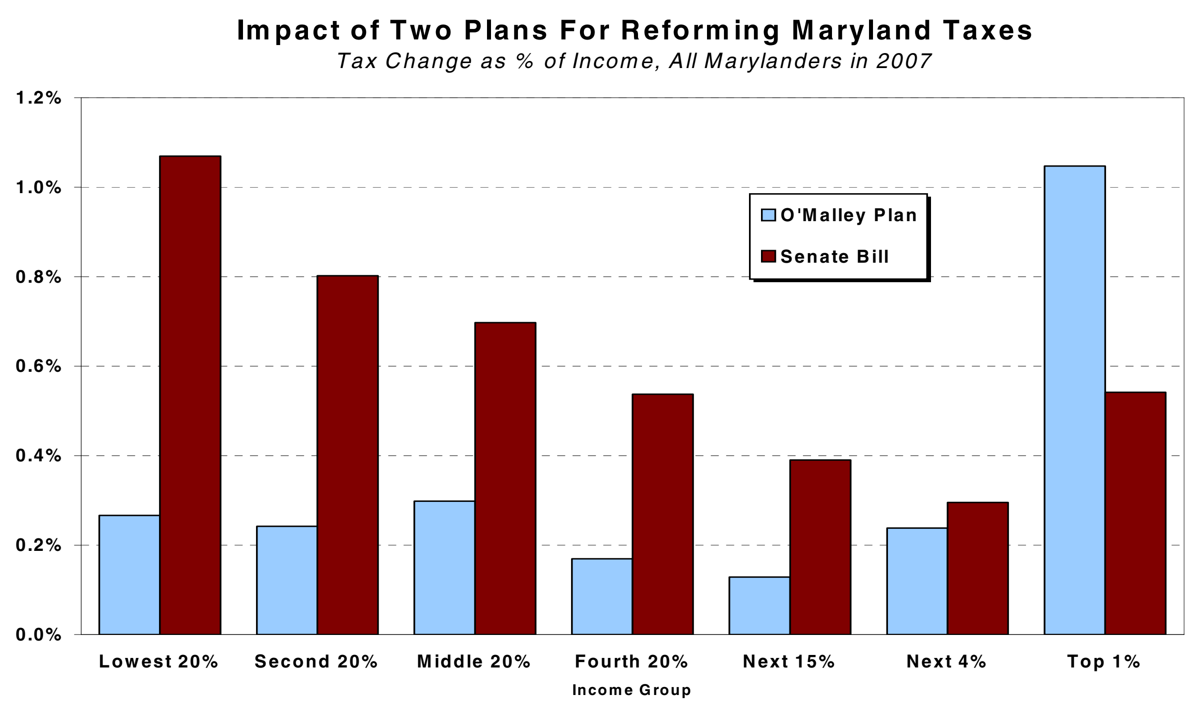
Senate Tax Plan Falls Hardest on Low-Income Marylanders

Governor's Plan Much More Fair than Bill Backed by Key Senate Committee

A new analysis of the tax legislation approved by the Senate Budget and Taxation Committee on Tuesday shows that the Senate's tax changes would impose the largest tax hikes, as a share of income, on low- and middle-income Marylanders. The analysis also shows that the Senate plan's regressive impact is in sharp contrast to the plan proposed by Governor Martin O'Malley late last month, which would make Maryland's tax system less unfair overall.

ITEP's analysis shows that the most important difference between the Senate bill and the Governor's plan lies in the proposed personal income tax reforms. While both plans would cut income taxes for most Marylanders, the average income tax cut for low- and middle-income families under the Senate bill would be less than a third of the expected cut under the Governor's plan. As a result, the Senate bill's income tax cuts are insufficient to offset the regressive impact of the sales tax hikes that both it and the O'Malley plan would enact. The chart below compares the tax change, as a share of income, for each Maryland income group under both the Senate plan and Governor O'Malley's plan.

ITEP Executive Director Matt Gardner noted, "If Maryland lawmakers want to close their fiscal gap without balancing the budget on the backs of low-income families, progressive income tax reform must be part of the solution. Unfortunately, the Senate's income tax changes are simply not sufficient to offset the sales and excise tax hikes that will hit low-income Marylanders hardest."



Among the principal findings of the ITEP analysis are the following:

- Marylanders in the poorest 20 percent of the income distribution – families and individual with incomes under $20,300 in 2007 – would see their overall taxes rise by roughly 1.1 percent of income under the Senate plan. Taxpayers in the middle of the income distribution – whose average income is estimated to be just over $49,000 in 2007 – would experience a total increase of 0.7 percent of income.
- In sharp contrast, the wealthiest 1 percent of Marylanders – taxpayers whose average income is expected to be more than $1.5 million in 2007 – would experience a total tax increase equal to 0.5 percent of income if the Senate bill became law.
- The overall distribution of tax changes under the O'Malley plan would be much more fair. The richest 1 percent of taxpayers – taxpayers who have benefitted inordinately from federal tax cuts enacted since 2001 – would pay an additional 1 percent of their incomes in taxes, while the poorest 20 percent of taxpayers would pay about a third of one percent of their incomes in higher taxes due to the Governor's plan.

Again, much of the difference between the Senate bill and the Governor's plan is due to the competing income tax provisions contained in the two measures. The ITEP analysis finds that:

- Marylanders in the poorest 20 percent of the income distribution would witness income tax cuts averaging almost $90 under the O'Malley plan, but would see cuts of just $30 on average under the Senate bill.
- In fact, 92 percent of Marylanders would enjoy larger personal income tax cuts under the Governor's plan than under the Senate bill, a critical attribute given the regressive nature of the other changes included in the two measures.
- Just 4 percent of Maryland taxpayers would receive more sizable income tax cuts under the Senate plan, but most those —most of them families in the wealthiest 5 percent of the income scale.

Impact of Alternative Maryland Personal Income Tax Proposals
All Marylanders, 2007 income levels

2007 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $20,300	$20,300 – $38,900	$38,900 – $61,500	$61,500 – $99,400	$99,400 – $198,000	$198,000 – $449,200	$449,200 – Or More
Average Income in Group	$ 12,500	$ 29,600	$ 49,100	$ 77,500	$ 133,600	$ 280,400	$ 1,577,100

O'MALLEY PLAN
Expand bottom tax brackets; create two new brackets with rates of 6.0 and 6.5 percent; increase elderly exemption; create new refundable "sales tax" credit; expand earned income tax credit (EITC)

Tax Change as % of Income	–0.7%	–0.5%	–0.2%	–0.2%	–0.1%	0.1%	0.9%
Average Tax Change	–89	–134	–108	–154	–170	+210	+14,720

SENATE COMMITTEE BILL
Create two new tax brackets with rates of 5.0 and 5.5. percent; increase personal, dependent, and elderly exemptions; expand the EITC

Tax Change as % of Income	–0.2%	–0.1%	–0.0%	–0.0%	–0.0%	0.0%	0.4%
Average Tax Change	–30	–41	–20	–30	–36	+38	+5,615

SOURCE: Institute on Taxation and Economic Policy - November 7, 2007

"Senate tax writers are to be commended for recognizing that a more progressive income tax is a vital element of tax reform in Maryland," observed Gardner. "However, the personal income tax provisions of the Governor's plan are much better targeted and help to keep his plan from making Maryland's tax system even less fair. The same, sadly, can not be said of the Senate's bill overall."