



MARYLAND BUDGET & TAX POLICY INSTITUTE

POSITION STATEMENT

SUPPORTING

HOUSE BILL 1177 - INCOME TAX - MILLIONAIRES TAX - SUNSET REPEAL

Ways and Means Committee

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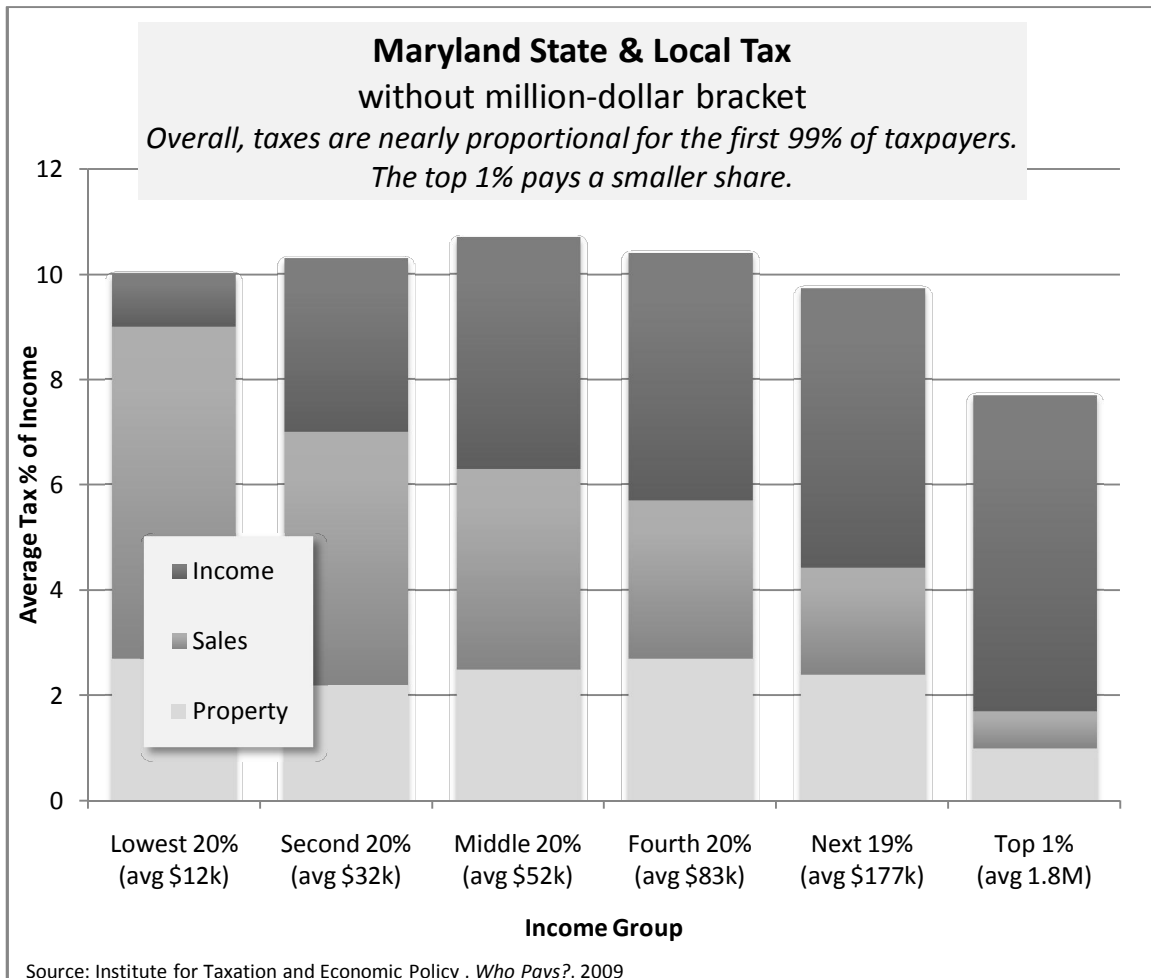
The Maryland Budget and Tax Policy Institute supports House Bill 1177.

State tax revenues have fallen over the last two years by historic proportions. They are nowhere near the level needed to maintain appropriate services for Maryland residents. This year's budget gets a boost from over \$900 million in one-time transfers and \$1 billion in federal stimulus aid that will run out. Cuts in spending also played a major role in balancing this year's budget. But relying too heavily on cuts will not meet today's needs in Maryland and will hurt the state's ability to position itself for future growth.

Maryland has within its reach a number of reasonable revenue options that would be a productive part of the balanced approach needed to preserve public investments in education, health, public safety, a good quality of life and a decent standard of living for all Marylanders.

HB 1177, which repeals the sunset on the tax bracket for income over \$1 million, represents one of these options. In 2008, the legislature enacted a three-year temporary increase on the highest income households. The rate on income above \$1 million a year for married and single filers became 6.25%. The 5.5% rate that had applied to all income over \$500,000 still applies to income between \$500,000 and \$1 million. The measure was part of a package of revenues, spending cuts and fund transfers to offset the money lost from repeal of the politically unpopular sales tax on computer services.

Even after the effects of the national economic recession, the million dollar tax bracket brings in about \$70 million a year. Without further legislative action, this revenue source automatically lapses at the end of calendar year 2010. Because of the overlap between calendar years and state fiscal years, the termination of the millionaire tax occurs six months into fiscal year 2011.



As a result of reforms accomplished by the Maryland General Assembly over the years, Maryland has one of the least regressive tax systems of any state. According to estimates calculated by the Institute for Taxation and Economic Policy, all income groups up to the 80th percentile of households pay between 10.0% and 10.7% of their income in state and local taxes. For lower-income groups, the sales tax makes up the largest share of this total. For higher income groups, the sales tax bill is a smaller percentage but the progressive income tax is larger. For the highest-income 1%, (averaging \$1.8 million in household income) state and local taxes average only 7.7% of income. That's a full 3% less than the total paid by the middle 20% of Marylanders. And in many cases, the high-income taxpayers get a further advantage when they deduct their state and local income tax from their federal taxable income.

Extending the million-dollar tax bracket will provide much-needed revenue for education, healthcare and other public services, and also help to assure that those with the most ability to pay contribute their fair share towards those services.

It is true that the number of tax returns filed in Maryland with net taxable income of \$1 million or more declined noticeably between 2007 and 2008. That decline has far more to do with the national recession – and its impact on household incomes –with changes in tax policy. The change in the number of million-dollar-plus returns includes changes in both the “outflow” of millionaires and the “inflow” of millionaires. In 2008, there were 3,837 Maryland taxpayers that had reported NTI of \$1 million or more in 2007 that no longer did so in 2008. Most of those (nearly 3300) still filed in Maryland but had incomes below \$1 million. These taxpayers did not flee the state, they simply collected less income in a weak national economy.

Moreover, there was an “inflow” of 1,680 new millionaires in 2008. Nearly 1,700 taxpayers either resided already in Maryland in 2007 and saw their incomes rise above \$1 million in 2008 or they moved into the state in 2008, made over \$1 million and began filing tax returns and paying taxes here. Either way, this “inflow” of Marylander millionaires directly contravenes the notion that changes in tax policy were discouraging affluent Marylanders from working hard and earning substantial sums of money or driving them out of the state altogether.

To illustrate the importance of the national economic downturn, consider that the state of Utah reduced its tax rates in 2008, and the number of millionaires there dropped 30%.

Maryland’s wealthiest households should not receive an automatic tax break while the state is cutting funding for education, health care, and public safety. The million-dollar tax bracket makes the state’s overall tax system fairer at the upper end of the income distribution. The evidence does not support the theory that the tax bracket has any significant effect on Maryland’s ability to attract and retain millionaires. For these reasons, the Maryland Budget and Tax Policy Institute requests the Ways and Means Committee to approve a favorable report for House Bill 1177.