

November 2014

Resources for New State Investments

Maryland has a number of reasonable revenue options available to close a projected gap of up to \$884 million between its resources and needs over the next two fiscal years, without harming the state's economy. Each of these options would protect or expand Maryland's job-creating investments in education, healthcare, transportation, and the other building blocks of a healthy economy. Some of them would also increase Maryland's standard of living and reduce income inequality, which threatens to close off opportunity for low- and middle-income families.

Revenue Options

Freeze or reverse bigger exemption for the wealthiest 3 percent of estates. Maryland passed legislation in 2014 that gradually raises the state tax exemption for wealthy heirs until it equals the federal exemption. This is going to cost the state more than \$150 million a year by 2019, which will account for 36 percent of the gap between how much revenue the state takes in and how much it needs. Under the legislation, we are on track to tax only the wealthiest .6 percent of estates in Maryland. We were taxing just the wealthiest 3 percent of Maryland estates before, and returning to that level makes sense.

Modernize our sales tax to cover more services, which are a much more important part of the economy now compared to when the sales tax was introduced in 1947. Nearly half (45 percent) of total household purchases went for services in 2011, up from 30 percent in 1970.¹ Many of those services, like marina services, landscaping, and barber/salon services, are not taxed. Expanding the sales tax could raise several hundred million dollars, depending on the details.

Support a State Severance Tax on natural gas production. If Maryland decides to allow natural gas drilling from the Marcellus Shale, the state needs to follow other energy-producing states and enact a natural gas severance tax based on the economic value (reflecting both the price and volume) of gas produced. Such an approach would generate substantial revenue that could be used to support education, health care, and statewide infrastructure projects, as well as to address the impacts of drilling on communities and the environment.

Level the playing field for local businesses by requiring corporations that operate in multiple states to pay taxes on the profits they earn in Maryland. This could be achieved through "combined reporting," which effectively treats a parent company and most or all of its subsidiaries as a single corporation for state income tax purposes. This provides a more complete and accurate accounting of the profits corporations earn from their activities. It also closes the door to a range of currently legal accounting tactics businesses use to avoid paying their fair share of taxes to Maryland and would raise

¹ Leachmen, M. and Mazerov, M. (2013) "Four steps to move state sales taxes into the 21st century" Retrieved from <http://www.cbpp.org/cms/?fa=view&id=3987>

about \$70 million per year.

Make Maryland's tax brackets fairer by reinstating the millionaire tax bracket. Marylanders making more than \$1 million before the recession weathered the storm substantially better than their peers in other states. Reinstating the millionaire's tax would raise about \$70 million annually and make MD's tax code fairer, since top earners pay less in taxes as a proportion of their income than middle- and low-income Marylanders.² High-income households are more dependent on investment income. The stock market has rebounded to its highest earnings since 2009, meaning that high-income households are recovering more quickly from the recession than middle or low-income households.

Increase tobacco taxes. Cigarette smoking costs the state more than \$1.96 billion annually in healthcare bills³. Taxing tobacco products is a proven strategy to reduce health care costs and increase revenue for the state. Increasing the tobacco tax from \$2 to \$3 per pack of cigarettes would bring in an estimated \$100 million in each of the next five budgets and reduce smoking in youths and adults.^{4 5}

² "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 4th Edition" <http://www.itepnet.org/whopays.htm>

³ Maryland Citizens' Health Initiative, "Significant Strides: Reducing Smoking and Expanding Health Care in Maryland," October 30, 2013,

<http://healthcareforall.com/wp-content/uploads/2012/01/MD-Success-from-2008-Tax-Increase-Report-DRAFT-10-14-13.pdf>

⁴ Maryland Department of Legislative Services, Fiscal and Policy Note for House Bill 443, 2014 Legislative Session, http://mgaleg.maryland.gov/2014RS/fnotes/bil_0003/hb0443.pdf

⁵ 4 Marr, Chuck, Krista Ruffini, and Chye Ching Huang, "Higher Tobacco Taxes Can Improve Health and Raise Revenue," Center on Budget and Policy Priorities, June 19, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3978>