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Adopting Governor's Full Tax Plan Would Cost Maryland

The $480 million tax cut plan Governor Hogan proposed includes some troubling provisions for average Marylanders.

Several of his ideas, perhaps with some minor modifications or very close attention to the details, would help build Maryland's economy.

If the General Assembly passes the entire tax package, though, the gap between Maryland's resources and what it takes to meet the state's needs would balloon. By fiscal year 2021 this "structural deficit" would reach $402 million. This would inevitably take away from the state services that are the building blocks of a healthy economy, like schools, hospitals, and transportation.

Help Working Families

On the plus side, the administration's proposal to accelerate the increase of the state refundable Earned Income Tax Credit would help thousands of working Marylanders who struggle to make ends meet due to low wages.

Maryland families earning less than $53,000 per year will save a cumulative $27 million over the next two years – money that they will spend at local businesses on things like groceries and car repairs.

However, the legislature should go further. The General Assembly has several bills before it which would expanding the state EITC so that it also helps younger workers and workers without dependent children, and also provide a small increase in the amount of the credit for families.

Tax Relief for Seniors

The governor has proposed a broad-based income tax break for people over age 65, increasing an existing exemption from to $5,000 per person from $1,000. Because this proposal is not income-based, very wealthy seniors who don't need the break would benefit just as much as seniors struggling to make ends meet.

A better approach would be to phase out the exemption at higher incomes. This would also avoid revenue loss that could reduce state services. The governor's proposal would cost as much as $100 million per year for the state and $66 million for local jurisdictions when the tax cut is fully phased in.

Cutting Fees

The governor has proposed eliminating a range of fees. Some fee reductions make sense, like reducing the cost to get copies of birth certificates. However, reducing other fees will reduce support for important state programs. For example, the revenue from fishing licenses helps support the state's activities to support and regulate the fishing industry.

A careful, case-by-case look is needed at which fees are being cut. Combined, the Governor proposed roughly $5.2 million in reduced fee revenue in the next fiscal year.

Business Filing Fee Reduction

The governor has said that his primary motivation for reducing the state's $300 business filing fee to $100 is intended to primarily help small businesses. If that is the intent, the proposal should be more narrowly targeted.

Reducing the annual filing fee by five sixths would cost Maryland up to $60 million annually. An alternative to a blanket reduction would be to reduce filing fees only for businesses under a certain size. The legislature has considered such filing fee reductions in the past. For example, in 2015, Senate Bill 179 would have eliminated the filing fee for businesses with 10 or fewer employees.

Manufacturing Zones

The governor has proposed importing a flawed program in an attempt to boost the state's manufacturing industry. Allowing a certain category of businesses to pay no taxes at all creates an uneven playing field and sets a bad precedent by exempting some businesses from paying their fair share for the services we all benefit from.

This proposal builds on Enterprise Zones – a tax credit program in Maryland that has so far failed to create many jobs – by copying a program in New York that has had disastrous results. New York spent roughly $53 million promoting its program and created just 76 jobs in the first year – a cost of nearly $700,000 per job.

Furthermore, programs like what the Governor proposed are notoriously easy to game, and very hard to enforce. For example, manufacturers can shut down, then restart under a new name to take advantage of the tax break. Manufacturers already receive preferential treatment in Maryland's tax code, because we allow them to pay no tax on income earned by selling their products out of state.