

Raising Revenue in Turbulent Times

Revenue Policy Directions for Investing in Education amid a Pandemic

Christopher Meyer
Research Analyst
Maryland Center on Economic Policy



2020 Session Review

*Revenue reform successes,
failures, progress*

2020 Revenue Legislation: What Passed

Modern Consumption Taxes, Sports Betting Referendum

HB 732

- Digital Advertising
- Tobacco Tax
- Vape Product Parity
- Digital Advertising: **Up to \$250 million**
- Tobacco, Vape Products: **\$80+ million**
- Digital ad tax will likely be held up in court for years

HB 932

- Digital Goods Tax
- FY 2021: **\$83 million**
- FY 2025: **\$119 million**

SB 4

- Sports Betting
- Referendum Only
- **Potentially \$20 million**
- If referendum passes, implementation legislation needed

2020 Revenue Legislation: What Advanced

Closing Loopholes, Ending Tax Breaks, Taxing Luxury Goods

HB 224 <ul style="list-style-type: none">• Close Opportunity Zone Loophole	<ul style="list-style-type: none">• About \$15 million as introduced	<ul style="list-style-type: none">• Passed House of Delegates with weakening amendment
HB 473 <ul style="list-style-type: none">• Corporate Loopholes• Combined Reporting• Throwback Rule	<ul style="list-style-type: none">• \$180+ million	<ul style="list-style-type: none">• Passed House of Delegates• Multiple similar bills didn't advance
HB 565 <ul style="list-style-type: none">• End Ineffective Business Subsidies	<ul style="list-style-type: none">• \$45+ million	<ul style="list-style-type: none">• Passed House of Delegates• Multiple similar bills didn't advance
HB 1354 <ul style="list-style-type: none">• Luxury Sales Tax	<ul style="list-style-type: none">• Up to \$26 million as amended	<ul style="list-style-type: none">• Passed House and Senate with weakening amendments• No conference committee before early adjournment

2020 Revenue Legislation: What Didn't Move

Closing Loopholes, Fixing our Upside-Down Tax Code

HB 222 <ul style="list-style-type: none">• Capital Gains Surtax	<ul style="list-style-type: none">• \$150+ million	<ul style="list-style-type: none">• 1% surtax on capital gains• Partially offsets special treatment in federal tax code
HB 256 <ul style="list-style-type: none">• Restore Millionaire Estate Tax	<ul style="list-style-type: none">• \$100–150 million	<ul style="list-style-type: none">• Return estate tax exemption to \$1 million (pre-2014 exemption)
HB 439 <ul style="list-style-type: none">• Carried interest Loophole	<ul style="list-style-type: none">• \$45 million	<ul style="list-style-type: none">• 17% surtax on certain income of private equity, hedge fund managers• Offsets special treatment in federal tax code
HB 916 <ul style="list-style-type: none">• Nonresident income tax	<ul style="list-style-type: none">• \$57 million	<ul style="list-style-type: none">• Raises nonresident income tax from lowest local rate to 3%• Nonresident tax filers are disproportionately wealthy
HB 1190 <ul style="list-style-type: none">• Income tax reform	<ul style="list-style-type: none">• \$585–668 million	<ul style="list-style-type: none">• Restructures income tax brackets and rates• Adds millionaire bracket• Most low- and middle-income families would pay less

2020 Revenue Legislation: What Didn't Move

Closing Loopholes, Sales Tax on Services

HB 507/SB 216 <ul style="list-style-type: none">• LLC loophole	<ul style="list-style-type: none">• \$300+ million	<ul style="list-style-type: none">• 4% surtax on largest passthrough companies• Partially offsets special corporate tax exemption• Protects true small business
HB 1066/SB 761 <ul style="list-style-type: none">• 529 Private School Loophole	<ul style="list-style-type: none">• \$20 million	<ul style="list-style-type: none">• Prohibits 529 tax breaks for private school tuition• Restores 529 intention• Reverses loophole added by Trump tax law
HB 1284 <ul style="list-style-type: none">• Tax Subsidy Reform	<ul style="list-style-type: none">• \$12 million	<ul style="list-style-type: none">• Repeals or restricts a wide range of tax subsidies
HB 1628 <ul style="list-style-type: none">• Sales Tax on Services	<ul style="list-style-type: none">• Up to \$2.9 billion	<ul style="list-style-type: none">• Expands sales tax to essentially all services• Policy design issues in bill as introduced• Scaled-back version could raise about \$600 million

2020 Revenue Legislation: Local Options

Fair Income Tax, Flexible Property Tax

HB 1494/SB 1040

• Local income tax

- Allows counties to tax wealthy individuals at a higher rate
- As introduced, increased local income tax rate cap from 3.2% to 3.5%
- Passed House of Delegates

HB 1276

Local property tax

- Allows counties to set different property tax rates for different types of property (commercial, residential, vacant, etc.)
- Allows greater flexibility within state constitution
- Did not advance

COVID-19, Tax Policy, and the Blueprint

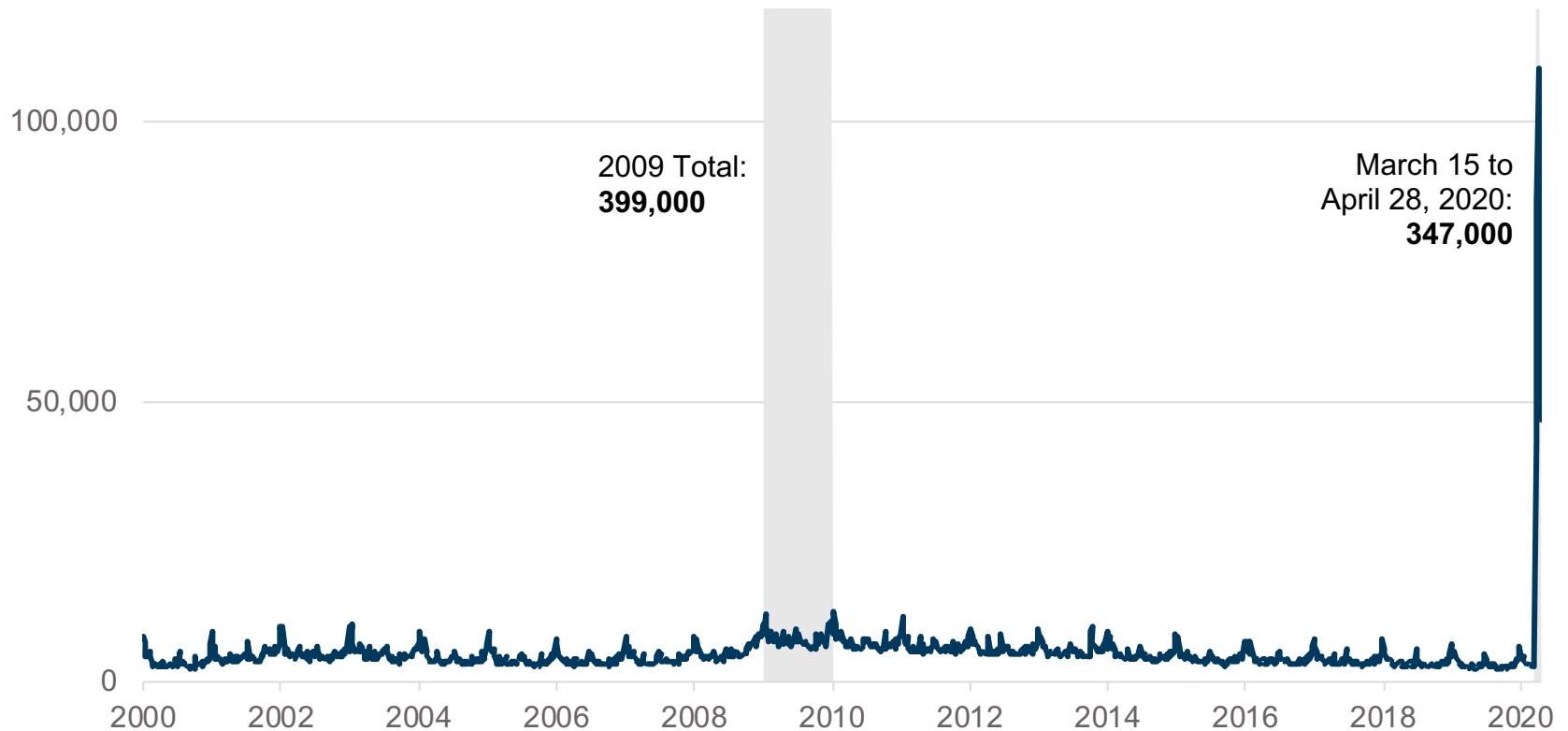
*Where we are and what
comes next*



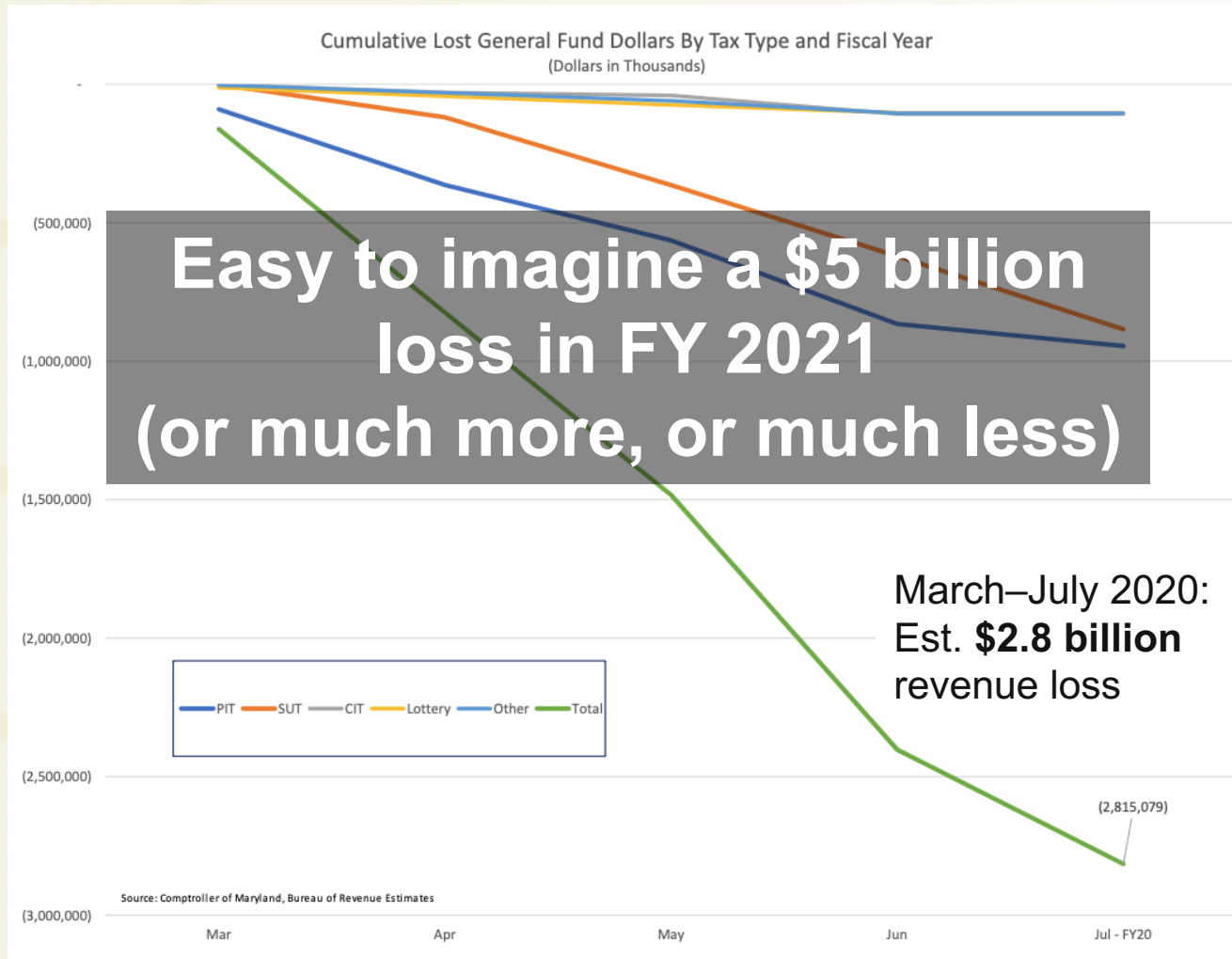
Uncharted Waters

Necessary COVID-19 Response Brought Deep, Rapid Job Loss


Maryland weekly initial unemployment claims, 2000–2020



Substantial Fiscal Impact



1 Source: FY 2020 estimates from Maryland Comptroller's Office. FY 2021 estimate by MDCEP, informed by Comptroller's FY 2020 underlying assumptions.



**We have encountered an
obstacle ...**

**.... Just as 900,000 Maryland
children do every day.**

Our Investments in Education Support a Strong Economy Tomorrow

- Employers' #1 priority: Skilled workers.
- Families want to set their kids up for success.
- Rigorous research:

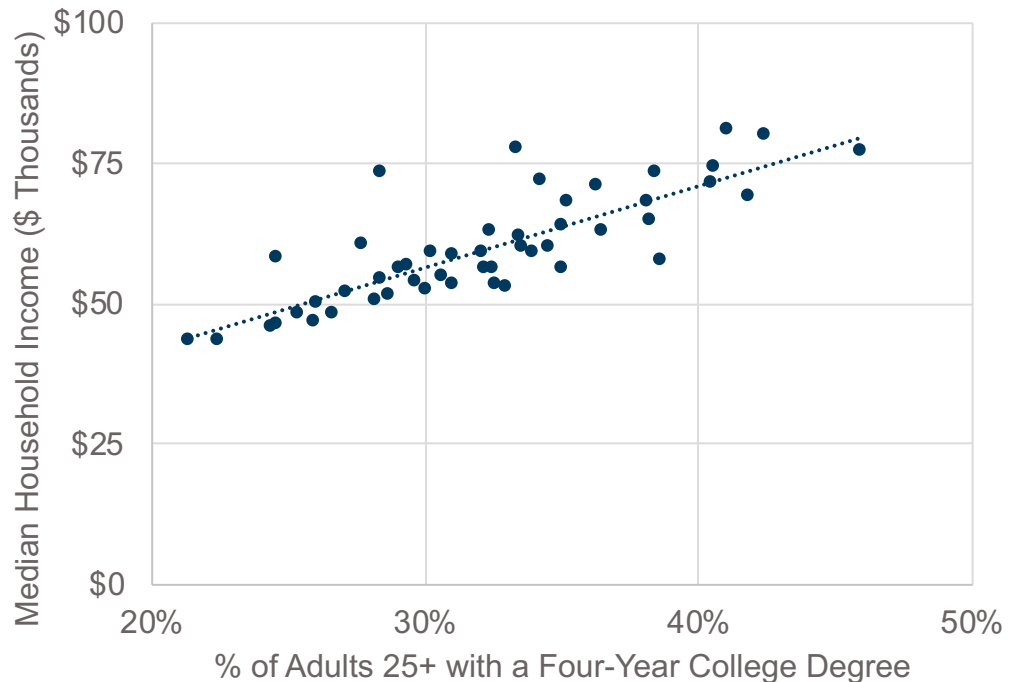
Better-funded schools today



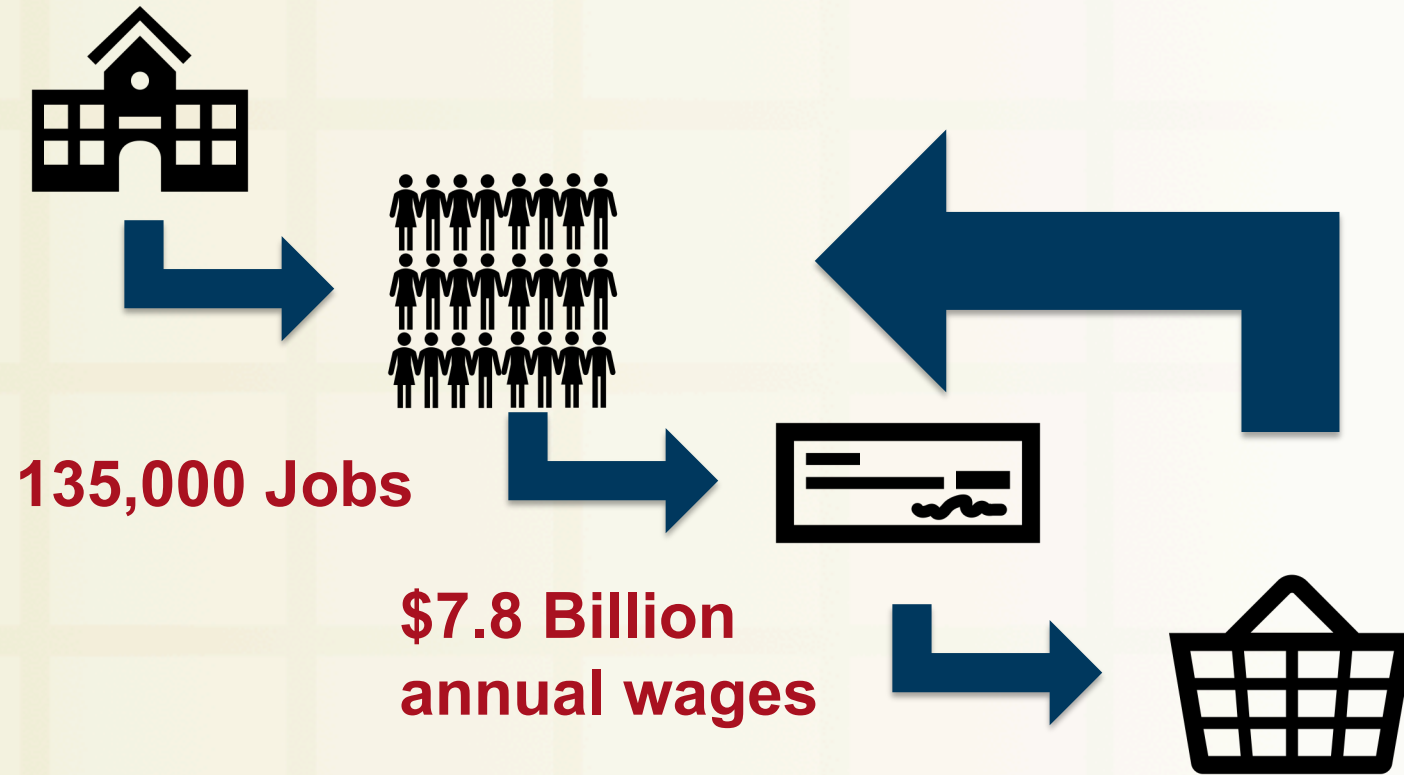
Better-paid adults tomorrow

Better-Educated States Are More Prosperous

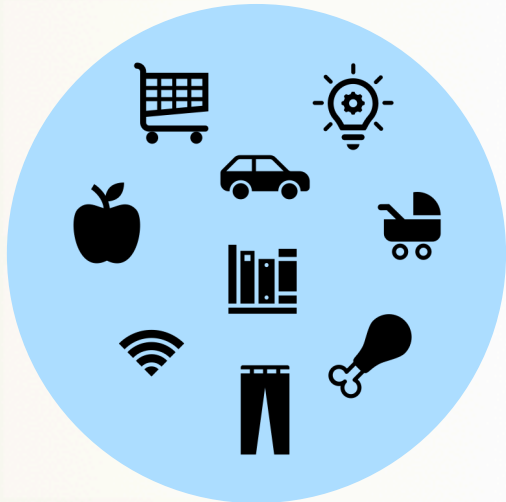
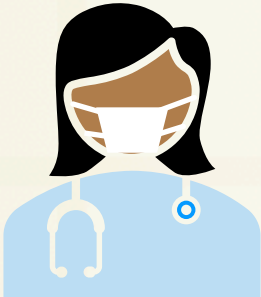
Median household income v. Adult four-year degree share



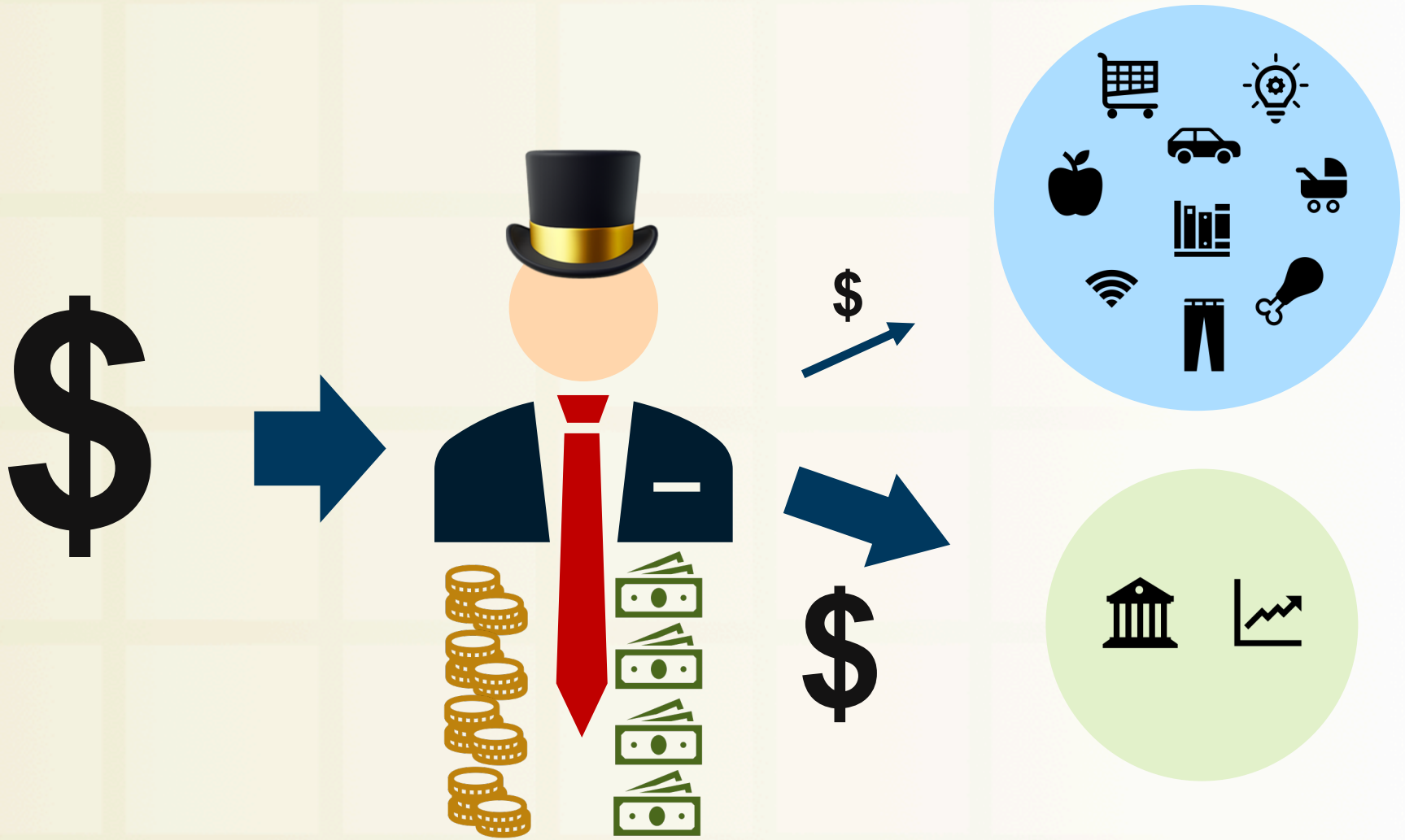
Our Investments in Education Support a Strong Economy Today



A Fair Tax Code Supports a Strong Economy



A Fair Tax Code Supports a Strong Economy



Moving Forward

Close corporate and big business loopholes

- Combined Reporting
- Throwback Rule
- LLC Loophole
- Opportunity Zone Loophole

Bigger, bolder:

- Apply full corporate rate to passthroughs
- Stop offshore tax avoidance
- Increase corporate tax transparency
- Increase corporate tax rate

Eliminate ineffective subsidies

- Repeal Business Tax Breaks
- 529 Loophole

Bigger, bolder:

- Repeal subsidies not addressed in 2020
- Prohibit new tax subsidies

Fix our upside-down tax code

- Reform our income tax
- Capital gains surtax
- Stronger luxury goods sales tax
- Restore millionaire estate tax
- Carried interest loophole
- Nonresident income tax

Bigger, bolder:

- Ask more of wealthiest individuals
- Stronger capital gains surtax
- Protect Maryland from automatically adopting harmful federal changes

Moving Forward

Expand local revenue options

- Increase income tax rate cap
- Allow flexible property tax rates

Consider thoughtful sales tax reform

- Expand tax base to include consumer services
- Offset with working family tax credits

The federal government must do its job

- Federal aid to date: **Welcome, but deeply inadequate**
 - \$2.3 billion for coronavirus response (\$1.7 billion to state, remainder to 5 largest local jurisdictions)
 - \$207 million direct K-12 aid
 - \$46 million governor's discretionary fund (K-12, higher ed)
- Fiscal aid to state and local governments is among **most effective ways to boost the economy**
- Needlessly slashing public investments hurts everyone, in every state

Q & A

Submit your questions using
the Q & A button or in the
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