

**PROGRESSIVE NEIGHBORS
REVENUE PROPOSALS
SUBMITTED TO THE 2012
MARYLAND GENERAL
ASSEMBLY**

I. GRADUATED INCOME TAX REFORM

A. Proposed changes in the tax brackets

Current Tax Rates – Single		Proposed Tax Rates – Single & Married	
0-1,000	2%	0-5,000	2%
1,000-2,000	3%	5,000-10,000	3%
2,000-3,000	4%	10,000-20,000	4%
3,000-150,000	4.75%	20,000-30,000	5%
150,000-300,000	5%	30,000-100,000	5.5%
300,000-500,000	5.25%	100,000-300,000	6%
Over 500,000	5.5%	300,000-500,000	6.5%
		500,000-1,000,000	7%
		Over 1,000,000	7.5%

B. Proposed changes in the standard deduction - Increase the Standard Deduction from 2,000 (single, etc.) & 4,000 (married, etc) to 3,000 (single, etc.) and 6,000 (married, etc.)

C. Estimated tax liability under current and proposed brackets

Taxable Income after Deductions	Current Tax Liability	Proposed Tax Liability
5,000	185.00	100
10,000	422.50	300
20,000	897.50	650
30,000	1,372.50	1,150
40,000	1,847.50	1,700
50,000	2,322.50	2,250
60,000	2,797.50	2,800
70,000	3,272.50	3,350
80,000	3,747.50	3,900
90,000	4,222.50	4,450
100,000	4,697.50	5,000
300,000	14,572.50	17,000
500,000	25,072.50	30,000
1,000,000	52,572.50	65,000

II. LUXURY TAX

- A. On all goods selling at a price greater than \$5,000 each, there would be an additional 1% tax added on to the current Maryland State sales tax on the amount of the sales price over \$5,000.
- B. On all goods selling at a price greater than \$20,000 each, there would be an additional 1% tax added on to the total Maryland State sales tax on the amount of the sales price over \$20,000. . (Note, this would create a total of a 2% additional tax above current Maryland State sales tax.)
- C. Exceptions: Exceptions include certain items that have a usual new sales price exceeding \$5,000, like cars, RVs, motorcycles, boats, planes. These would have a 1% and 2% “price break” floor of \$35,000 and \$90,000 respectively.
- D. Exclusions: Excluded from this tax would be items purchased for business use and medically necessary purchases.

III. COMBINED REPORTING

- A. Reintroduce the bill from the 2011 session of the General Assembly

IV. WHY SUPPORT A LEGISLATIVE PACKAGE INCLUDING GRADUATED INCOME TAX REFORM, A LUXURY TAX AND COMBINED REPORTING?

Maryland General Assembly must consider significant sources of additional revenue to close to structural deficit or face massive cuts to essential social programs. Temporary solutions like the “millionaires’ surtax” and regressive taxes like the gasoline tax are not sufficient to provide the necessary funding, and in the case of the gas tax, place greater burdens on those who can least afford them. Therefore, the General Assembly should take this opportunity to focus on making Maryland’s tax structure one in which everyone pays their fair share. The proposals would, in turn, provide much needed revenue and help offset the regressive nature of any other taxes which may be part of a tax package in the 2012 session.

If we look at state and local taxes together, we must conclude that Maryland currently has a regressive tax structure. Those earning less than \$60,000 a year pay, on the average, 9.9% of their income in state and local taxes (this includes income, property, and sales taxes). But those earning more than \$106,000 (the income earned by the top 20% of MD taxpayers) pay only 7.3%, of their income in state and local taxes. (www.faireconomy.org/flipchart)

Meanwhile, over the past 20 years, the top 20% of taxpayers in Maryland have seen a 50% increase in income compared to a 9% increase for the bottom 20%. At the same time upper income Marylanders have benefited from huge tax cuts in their federal income tax. These cuts have resulted in decreases in federal aid to the states and thus are, in large part, responsible for placing greater financial burdens on the state.

The proposed legislation would generate approximately \$350 to \$400 million in much needed revenue. This estimate is based on tax years 2007 and 2008; with income growth since then, the actual revenue generated may well be greater. Additionally, if this new structure for income tax is adopted for tax year 2012, it would result in an additional \$100 million in increased revenue for the Fiscal Year 2013. (Our estimates are based on analyses by Neil Bergsman and the Maryland Budget and Tax Policy Institute)

With regard to the Graduated Income Tax Reform, we would argue that no other revenue source has the potential to both meet the need for significant additional revenue and make the tax structure in Maryland less regressive. By changing the brackets and increasing the standard deduction, most Marylanders would see a slight income tax reduction (to offset any increases that they would pay in other taxes which might be part of a legislative package) and those with taxable income between \$60,000 and \$100,000 would have only a slight increase in tax liability. Those with taxable incomes over \$100,000 would provide the majority of the increase in revenue.

With regard to the Luxury Tax, we would argue that adding 1-2% to taxes paid on the purchase of luxury items, makes the sales tax, which is inherently regressive, less so. The tax is similar to one recently passed in Connecticut and focuses on luxury goods as opposed to those purchases necessary for everyday living. Both the Graduated Income Tax Reform and the Luxury Tax have the added benefit of not requiring additional administrative apparatus to enforce, as they are simply changes to current tax statutes.

Combined Reporting is important both as a revenue source and to level the playing field for businesses in Maryland. All companies doing business in the state should pay for services that benefit them, services provided by state and local governments such as the education, transportation and public safety. Currently, many large corporations can shift their profits out of state and avoid paying their fair

share of taxes in Maryland. This gives these corporations an unfair advantage over smaller companies that only do business in Maryland, while at the same time depriving the state of much needed revenue. And, this would not inconvenience large businesses with additional paperwork, since almost all of these companies already do business in one or more of the 23 states with combined reporting.

Finally, we would argue that in Maryland and in the country as a whole, there is strong public support for the idea that everyone should pay his or her fair share in taxes. Therefore, this proposal should be part of any tax package to ensure that that our tax system becomes less regressive and provides the revenue essential to meeting the needs of Maryland's citizens.