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THE MARYLAND HOUSE OF DELEGATES
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Testimony in Support of HB 1007
Fair Share for Maryland Act of 2024

The Fair Share for Maryland Act would raise much needed revenue to help pay for the essential services Marylanders depend on and will cut taxes for low- and middle-income families while making our tax code fairer.

Additional revenue is urgently needed to ensure Maryland can meet its commitment to funding the Blueprint for Maryland's Future. By 2028, the state's budget deficit is projected to reach $3 billion, according to the revenue analysis released this year by DLS.

This legislation would raise approximately $1.6 billion annually for Maryland's general fund when fully phased in and will give tax breaks to working families by expanding the Child Tax Credit and Earned Income Tax Credit. The legislation closes corporate tax loopholes and creates new tax brackets for the wealthiest taxpayers in the state, ensuring the wealthiest 1% of Marylanders pay the same proportion of their income in taxes as low- and middle-income taxpayers currently do.

Marylanders strongly believe the state's tax system is unfair, with large majorities supporting proposals to close corporate tax loopholes and ensure that wealthy individuals pay their fair share, according to recent polling. The survey, conducted in October 2023, found that 64% of Marylanders voters believe the tax system is unfair and 75% said it was important for the state to make sure wealthy individuals pay their fair share of taxes. 79% support efforts to close loopholes that allow multi-state corporations to avoid paying taxes for profits generated in Maryland, including 63% who *strongly* support.

Expanding the Child Tax Credit

Maryland's Child Tax Credit (CTC) is currently very limited because of its current income limit of $15,000. The bill provides a tax cut to as many as 1.4 million low- and middle-income Marylanders, including 700,000 children, by expanding the CTC to families making up to $80,000 in taxable income. Under the bill, the credit is valued at $750 per child under age 6 and $500 per child ages 6 to 17; these credit amounts will adjust for inflation in the same way the federal credit does. This expanded CTC will be a lifeline for Maryland families in need of tax savings that can help pay for rent, utilities, medical bills, groceries and other basic living expenses.

Expanding the Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is widely seen as the nation's leading anti-poverty tool, lifting thousands of Maryland families out of poverty every year. This bill raises the income limit for individual taxpayers without qualifying children. Many taxpayers who fall into this category are minimum wage workers who are denied the credit because of Maryland's low income limit; anyone working 23 hours a week at minimum wage earns too much to qualify for the state credit. This change to the EITC will also adjust the income limit with inflation for this subset of EITC claimants in the same way the federal credit does.

Requiring Worldwide Combined Reporting

The bill implements worldwide combined reporting, removing an unfair advantage that large companies have over smaller businesses by closing a loophole that allows multinational corporations to shift their profits to low-tax jurisdictions to avoid paying state income tax. Corporations would be required to report the income and expenses of all related subsidiaries, regardless of where they are located, rather than reporting on a separate entity basis.

Many other states use combined reporting. Twenty-eight states, plus DC, have transitioned to requiring combined reporting, including many Republican-controlled states. Fourteen of those states, plus DC, look beyond water's edge by either allowing, or requiring, corporations to file returns that include at least some profits booked in foreign countries.[1] Six of those states, plus DC, mandate profits from certain tax haven countries be included in combined reports.[2]

Combined reporting is not an obstacle to economic growth. Half of the current top 10 states for GDP growth are combined reporting states (Idaho, Utah, Arizona, Maine and New Hampshire).[3] Of the states with highest GDP growth in 2023, several are combined reporting states (Nebraska, Kansas, Texas and Colorado). Four of the top 5 states for Fortune 500 companies are combined reporting states (Texas, California, New York, and Illinois).[4]

Taxing "Nowhere Income"

The bill incorporates a "throwback" rule. When a Maryland corporation sells goods into states that do not have a nexus to tax those sales, the bill would assign the resulting untaxed "nowhere income" to Maryland for the purpose of calculating the corporation's taxes. In this way, profits are "thrown back" to Maryland, where the corporation is located.

Adopting the throwback rule would put small businesses in Maryland on a more level playing field with large multistate corporations that sell into other states. Nineteen other states, plus DC, have such a provision.

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[1] ITEP: Far From Radical: State Corporate Income Taxes Already Often Look Beyond the Water's Edge
[2] 75% of Fortune 500 companies operate in foreign tax havens according to an analysis of publicly reported SEC Form 10-K filings. https://itep.org/offshoreshellgames2017/
[3] https://www.usnews.com/news/best-states/rankings/economy/growth/gdp-growth
[4] https://fortune.com/franchise-list-page/visualize-the-fortune-500-2023/

Reinstating the Millionaire's Income Tax

The bill boosts the progressivity of Maryland's personal income tax by creating new tax brackets on upper incomes (over $500,000 and over $1 million). Maryland previously had a millionaire's tax from 2008 to 2010 during the last budget crisis.

Maryland has seen substantial growth in the number of millionaires in recent years. According to data from the Comptroller, the number of taxable returns with adjusted gross income exceeding $500,000 increased by nearly 10,700–a 33% increase–between 2019 and 2022.[5] Over that same span, the total net taxable income of this subset of Marylanders swelled from $39.6 billion to $54.4 billion.

Five other states, plus DC, have tax brackets that apply specifically to millionaires.[6] Notably, this bill's proposed 7% tax on millionaires is equivalent to or lower than an additional six other states' rates for non-millionaires; those states have tax rates of at least 7% on incomes as low as $58,000.[7]

Reinstating a Lower Estate Tax Threshold

The estate tax applies only to the wealthiest individuals in Maryland and is one of the only ways the state taxes inherited wealth. The bill restores Maryland's estate tax exclusion amount to $2 million in assets, the same level it was in 2016. In the past, Maryland's threshold was even lower at $1 million. Of the 13 states with an estate tax, four states have thresholds lower than or comparable to $2 million.[8]

Taxing Passive Income Like Wages

Passive income from capital gains is subject to a low federal tax rate that provides lopsided benefits to the wealthy. This bill partially offsets this special treatment by adding a 1% surtax on capital gains. Two other states do so: Massachusetts levies a 3.5% surtax on short-term capital gains and Washington State taxes all capital gains at 7%. Retirement accounts, livestock, business property, and most estates would be exempt from the 1% tax.

Closing the LLC Loophole

Many large corporations in the U.S. have reorganized as LLCs, partnerships, and other types of pass-through entities (PTEs) in order to be exempt from federal and state entity-level taxes. The bill would close this loophole by requiring the wealthiest 2% of PTEs to pay the normal corporate tax rate. Seven other states, plus DC, do not have this loophole; California, DC, Illinois, Kentucky, Massachusetts, New Hampshire, Tennessee, and Texas all impose tax on PTEs.

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[5] Comptroller TY19 & TY22 Annual Income Tax Summary Reports.
[6] California, Connecticut, Massachusetts, New Jersey, New York, DC.
[7] Hawaii, Maine, Minnesota, Oregon, Washington, Wisconsin.
[8] Massachusetts, Oregon, Rhode Island, Washington.