

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Joint Resolution 4 (Delegate McKay, *et al.*)
Rules and Executive Nominations

Moratorium on Taxes and Regulations

This joint resolution commits the members of the General Assembly to a four year moratorium on increasing any existing taxes, establishing any new taxes, and mandating any additional regulations.

Fiscal Summary

State Effect: The joint resolution does not directly affect State finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Background: Taxes are the primary source of revenues in Maryland. Individual income taxes are the single largest source of revenue, followed by the sales and use tax and transportation taxes (motor fuel taxes and motor vehicle excise tax). The balance of State tax revenues is derived from the corporate income tax and other business taxes, property and property transfer taxes, tobacco and alcoholic beverage taxes, estate and inheritance taxes, and other miscellaneous taxes.

Maryland's tax mix is diverse but weighted toward the income tax. The main sources of State and local tax revenue in Maryland are the income tax, the sales and use tax, and property taxes. This tax structure is well diversified because the State uses all three of the major tax sources, as some states only use two of these taxes. Because of the complementary nature of these taxes, using all three enhances the fairness and stability of

the tax structure. In addition, like most states, Maryland has a motor fuel tax that is a dedicated revenue source used to fund transportation construction and maintenance expenditures. Maryland does not impose taxes on the personal property of individuals, as is done in some states, such as Virginia.

The individual income tax has long been the State's primary source of revenue, and its importance as a source of revenue has grown over the years. In fiscal 2015, the State will receive an estimated \$8.2 billion in individual income tax revenues, constituting almost 53% of general fund revenues. The individual income tax makes up a larger share of total taxes in Maryland than in most other states. Conversely, sales and property taxes in Maryland make up a smaller share of total revenues compared to most other states.

Maryland's income tax base is relatively narrow, which puts upward pressure on income tax rates. Taxes with broad bases are more conducive to low rates than those with narrow bases. For example, Pennsylvania has a broadly defined income tax base and a relatively low state income tax rate of 3.07%. Maryland's base is narrow because of the many deductions, exemptions, and credits that are allowed. In addition to allowing most federal itemized deductions, there are several State-only deductions that further reduce the base.

While Maryland's overall tax burden is close to average when compared to other states, the State's high reliance on the income tax in its mix of taxes, together with the local income tax, puts Maryland near the top in rankings of states based on income taxes.

The sales and use tax is the State's second largest source of revenue. Compared to other states, Maryland's sales tax rate is not high, and the tax base is relatively narrow. Maryland's sales tax base is narrow because it excludes most services and exempts grocery food, residential utilities, and medicine from the sales tax base. In fiscal 2015, the State will receive over \$4.3 billion in sales tax revenues, or about 27% of total general fund revenues.

Property taxes are primarily a local revenue source in Maryland. For fiscal 2015, the counties and municipalities collectively received approximately \$7.8 billion in real and personal property tax revenues. State property tax revenues are dedicated to debt service on State general obligation bonds.

Transportation taxes are the third largest source of tax revenue for the State. Transportation taxes generally are credited to the Transportation Trust Fund, a portion of which is shared with local governments. In fiscal 2015, the State will receive approximately \$1.7 billion in transportation tax revenues.

Maryland ranks twenty-ninth among all states in overall taxes as a percentage of personal income (**Exhibit 1**) and eleventh in overall taxes on a per-capita basis (**Exhibit 2**).

Maryland's reliance on the income tax is high compared to other states, while the State generally ranks near the middle with respect to property taxes and corporate income taxes and near the bottom with respect to sales taxes.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2015
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Exhibit 1
Maryland State and Local Tax Revenues – Comparison to Selected States
2010-2011 Tax Revenues as a Percentage of Personal Income

	<u>Property Tax</u>	<u>Personal Income Tax</u>	<u>Corporate Income Tax</u>	<u>Sales & Selective Taxes ⁽¹⁾</u>	<u>License Fees</u>	<u>Other Taxes ⁽²⁾</u>	<u>All Taxes</u>	<u>Per-capita Personal Income</u>
Maryland	2.9%	3.6%	0.3%	2.5%	0.3%	0.3%	9.8%	\$50,558
Percent Rank	33	3	29	44	42	14	29	6
Delaware								
Percent	1.8%	3.3%	0.9%	1.3%	3.2%	0.3%	10.8%	\$41,403
Rank	49	5	4	50	1	13	16	23
District of Columbia								
Percent	3.9%	2.9%	0.8%	3.1%	0.3%	0.8%	11.8%	\$73,661
Rank	12	11	5	39	44	6	7	1
New Jersey								
Percent	5.5%	2.3%	0.5%	2.6%	0.4%	0.2%	11.5%	\$52,349
Rank	1	21	11	43	36	23	8	4
North Carolina								
Percent	2.5%	2.8%	0.3%	3.5%	0.5%	0.0%	9.7%	\$36,048
Rank	40	13	27	27	28	49	33	38
Pennsylvania								
Percent	3.1%	2.6%	0.4%	3.3%	0.6%	0.3%	10.3%	\$42,287
Rank	26	17	13	29	16	12	18	21
Virginia								
Percent	3.0%	2.6%	0.2%	2.2%	0.5%	0.2%	8.6%	\$46,063
Rank	30	18	34	45	29	25	46	9
West Virginia								
Percent	2.3%	2.7%	0.5%	4.2%	0.5%	1.0%	11.3%	\$33,412
Rank	41	15	10	12	23	4	12	49
U.S. Average	3.4%	2.2%	0.4%	3.6%	0.5%	0.3%	10.3%	\$41,561

Note: For the rankings, 1 indicates the highest. Rankings are out of 51 except for the personal income tax (out of 44) and the corporate income tax (out of 47).

⁽¹⁾ Includes the general sales tax along with selective taxes such as excise taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premiums taxes, public utility gross receipts taxes, and others.

⁽²⁾ Includes death and gift taxes, documentary and stock transfer taxes, severance taxes, and other taxes.

Source: Annual Survey of Government Finance; U.S. Census Bureau; Population from the U. S. Census Bureau; Personal income data from U.S. Bureau of Economic Analysis

Exhibit 2
Maryland State and Local Tax Revenues – Comparison to Selected States
2010-2011 Tax Revenues Per Capita

	<u>Property Tax</u>	<u>Personal Income Tax</u>	<u>Corporate Income Tax</u>	<u>Sales and Selective Taxes ⁽¹⁾</u>	<u>License Fees</u>	<u>Other Taxes ⁽²⁾</u>	<u>All Taxes</u>	<u>Per-capita Personal Income</u>
Maryland								
Amount	\$1,443	\$1,815	\$133	\$1,261	\$165	\$156	\$4,972	\$50,558
Rank	18	3	22	37	36	12	11	6
Delaware								
Amount	\$734	\$1,354	\$382	\$557	\$1,326	\$132	\$4,484	\$41,403
Rank	46	8	5	49	1	14	18	23
District of Columbia								
Amount	\$2,839	\$2,118	\$617	\$2,276	\$226	\$598	\$8,673	\$73,661
Rank	2	2	2	3	21	4	2	1
New Jersey								
Amount	\$2,888	\$1,202	\$251	\$1,366	\$200	\$110	\$6,016	\$52,349
Rank	1	10	8	31	27	18	7	4
North Carolina								
Amount	\$895	\$1,023	\$113	\$1,272	\$177	\$13	\$3,493	\$36,048
Rank	40	17	26	34	35	50	35	38
Pennsylvania								
Amount	\$1,303	\$1,093	\$179	\$1,409	\$252	\$140	\$4,376	\$42,287
Rank	27	14	13	23	14	13	19	21
Virginia								
Amount	\$1,370	\$1,176	\$99	\$1,018	\$218	\$87	\$3,967	\$46,063
Rank	22	11	30	45	23	25	26	9
West Virginia								
Amount	\$770	\$898	\$166	\$1,407	\$180	\$339	\$3,760	\$33,412
Rank	45	24	16	24	32	5	28	49
U.S. Average	\$1,423	\$914	\$156	\$1,479	\$213	\$111	\$4,296	\$41,561

Note: For the rankings, 1 indicates the highest. Rankings are out of 51 except for the personal income tax (out of 44) and the corporate income tax (out of 47).

⁽¹⁾ Includes the general sales tax along with selective taxes such as excise taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premiums taxes, public utility gross receipts taxes, and others.

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Source: Annual Survey of Government Finance, U.S. Census Bureau; Population from the U.S. Census Bureau; Personal income data from U.S. Bureau of Economic Analysis