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THE MARYLAND HOUSE OF DELEGATES
Annapolis, Maryland 21401

Testimony in Support of HB 222
Capital Gains Surtax

This bill would make Maryland's individual income tax structure fairer by implementing a one percent surtax on long-term capital gains (e.g. investments that are held for 12 months or more). Not only would this make our state's tax system fairer, it would also raise $766.3 million in the next five years that can be used for public education.

What Are Capital Gains?

Capital gains are profits from the sale of stocks, bonds, real estate, a business, art, or other collectibles. Put another way, capital gains are income from investment, not income from work. In general, the sale of one's primary residence is not subject to capital gains.[1] Capital gains are only taxed when the asset is sold for a profit.

How Are Capital Gains Currently Taxed in Maryland?

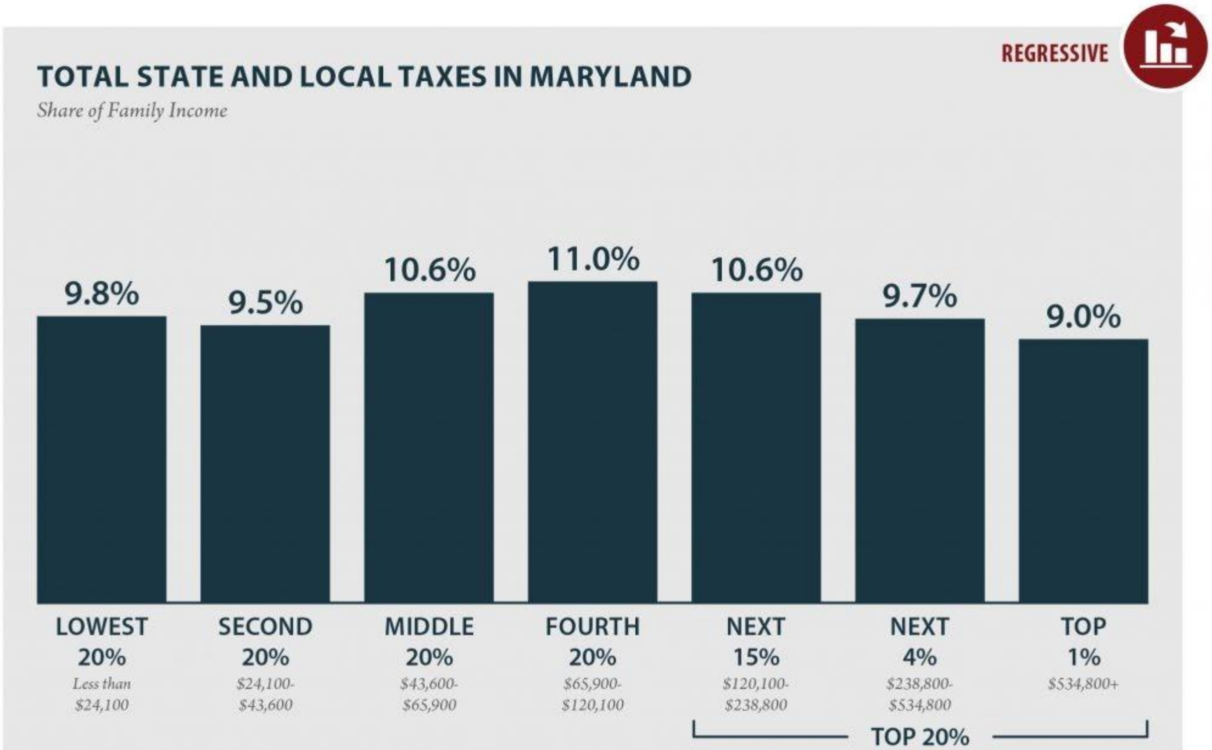
Capital gains are currently taxed as part of individual income taxes in Maryland.

A Capital Gains Surtax Would Make Our Tax System Fairer

Our state tax code is currently upside down: the richest one percent pay a smaller share of their income in state and local taxes than any other Marylanders.[2] This means that <u>Maryland families making $535,000 or more a year pay the lowest tax rate.</u> Implementing a surtax on capital gains would equalize our state's regressive tax structure.

(See figure on next page)

[1] For joint filers, the first $500,000 of profit from the sale of primary residence is not subject to capital gains taxes if the owners lived in the home for at least two of the previous five years.
[2] Institute on Taxation and Economic Policy, https://itep.org/whopays/maryland/



A Capital Gains Surtax Is Highly Targeted to Wealthy Households

According to the Center on Budget and Policy Priorities, the vast majority of capital gains go to the wealthiest 5 percent of taxpayers. Even among the wealthy, capital gains are disproportionately concentrated within the top 1 percent of taxpayers.[3]

The conservative Tax Foundation also acknowledges that capital gains comprise a tiny amount of income for nearly all Americans.[4] They report that for 99 percent of American households, less than 4 percent of income comes from capital gains. Contrast this with the top 1 percent, where 45 percent of income is from capital gains.

Capital gains are not only a symptom of our upside-down tax system—they are also a driver of inequity. A study by the Congressional Research Service found that "changes in capital gains and dividends were the largest contributor to the increase in the overall income inequality" among Americans between 1996 and 2006.[5]

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[3] https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-capital-gains

[4] https://taxfoundation.org/increasing-capital-gains-taxes-requires-trade-offs/

[5] "Taxes and the Economy: An Economic Analysis of the Top Tax Rates Since 1945," 2012, Congressional Research Service.