Individuals Who Gain Income in Maryland Should Pitch in for the Services We All Rely On

Position Statement in Support of House Bill 916

Given before the House Ways and Means Committee

An effective revenue system is an essential tool to enable Maryland to invest in the foundations of our economy, such as education, health care, and transportation. Just as importantly, a fair tax system is essential to push back against the increasing concentration of wealth and power in a few hands. Everyone who participates in Maryland's economy—whether they live here, work here, or do business here— benefits when we have sufficient resources to invest in the basics. These investments can be particularly important to break down the barriers built through past and present policies that hold back many Marylanders because of their race, gender, a disability, or another aspect of their identity. House Bill 916 calls for individuals who gain income in Maryland but live in other states to pitch in toward the services that support our economy, and is expected to raise $57 million each year. For these reasons, the Maryland Center on Economic Policy supports House Bill 916.

Maryland has been underinvesting in the foundations of our communities ever since the Great Recession. We chipped away at public school funding, allowing the number of school districts that were close to full funding under the Thornton formula to fall from 23 out of 24 in fiscal year 2008 to only six by 2017—with more than half of the state's Black students going to school in a district that was underfunded by 15 percent or more.[i]

We have allowed other essential investments to erode as well:

- As of late 2017, legislative analysts estimated that state agencies were understaffed to the tune of about 2,500 workers.[ii]
- Today, nearly 3,000 Marylanders with disabilities that are considered "severe" by state standards are unable to access supports that could help them succeed in the workforce because the state lacks the resources to provide those supports.[iii]

Maryland's nonresident income tax is an important tool to ensure that everyone who participates in Maryland's economy contributes their share to support bedrock public services. Everyone who gains income in Maryland relies on the investments our tax dollars make possible—such as public schools that build tomorrow's skilled workforce, roads and rails that get people and goods where they need to go, and courts to enforce contracts. Yet because nonresidents do not have a home address in any Maryland county, they are not subject to the local income taxes Maryland residents pay. The nonresident income tax ensures that those who live in another state but gain income in Maryland contribute to the full suite of public investments they rely on.

Today, the nonresident income tax rate is set equal to the lowest local income tax rate in effect in any county, currently 2.25 percent. This means that nonresidents are responsible to contribute the bare minimum toward the suite of services the state and counties provide, and less than most Maryland residents. House Bill 916 would fix the nonresident tax rate at 3.00 percent, which currently approximates the average local income tax rate across counties. This reform is expected to raise $57 million annually.[iv]

Income Source	Top 1% Share	Share of Total Income	
		Resident Filers	Nonresident Filers
Wages, Salaries, Tips	8%	72%	24%
Interest, Dividends, Estates, Trusts	36%	3%	16%
Capital Gains	65%	4%	39%
Partnership Net Income	73%	6%	21%
Source: MDCEP analysis of Tax Year 2016 Statistics of Individual Income, Maryland Comptroller's Office.			

House Bill 916 would make Maryland's revenue system more equitable. Today, our tax code is upside-down, allowing the wealthiest 1 percent of households to pay a smaller share of their income in state and local taxes than the rest of us do.[v] The mix of income sources nonresident tax filers report suggests that they are likely better off than the large majority of Maryland residents, in terms of both income and accumulated wealth.

- For example, only 24 percent of the income nonresidents reported on their Maryland tax returns for 2016 came from wages, salaries, and tips, compared to 72 percent of Maryland residents' income.[vi] About 8 percent of wage and salary income goes to the wealthiest 1 percent of households, meaning that this is only a moderately unequal income source.
- In contrast, 60 percent of the income nonresidents report on their Maryland tax returns comes from capital gains and partnerships, while these sources contribute only 10 percent to Maryland residents' total income. These income sources are heavily lopsided, with 70 percent going to the wealthiest 1 percent of households.

Because the majority of nonresident tax filers' income comes from wealth rather than work, asking more of these individuals would counterbalance the forces that have concentrated built-up assets in the hands of a small number of overwhelmingly white households while largely leaving Marylanders of color behind.

As Marylanders consider the major investments we will need to strengthen the foundations of our economy in future years—from world-class schools to high-quality health care—we should look first to reforms that can raise significant revenue while making Maryland's tax code more equitable. House Bill 916 would represent a modest but meaningful step in that direction.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 916.

Equity Impact Analysis: House Bill 916

Bill summary

House Bill 916 changes the nonresident income tax rate from the lowest county income tax rate in effect in a given year (currently 2.25 percent) to a fixed rate of 3.00 percent.

Equity Implications

House Bill 916 would bring significant equity benefits:

- Asking more of the disproportionately wealthy individuals who live in other states but gain income in Maryland would generate revenue that could be invested in things like world-class schools, sufficient child care assistance, and reliable transit. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.
- More than half of the income nonresident filers report on their Maryland tax returns comes from sources like capital gains and partnership income that are predominantly derived from wealth rather than work. Income from these sources is heavily concentrated among the wealthiest 1 percent of households.
- Income from sources like capital gains and partnerships is concentrated not only among the highest-income households, but among the households with the most built-up assets. The 10 percent of households nationwide with at least $1.2 million in built-up wealth includes 13 percent of white households, 5 percent of all households of color, and less than 2 percent of Black households.[vii] A smaller group, the 10 percent of white households with the most built-up wealth, control nearly two-thirds of household assets nationwide.[viii] House Bill 916 would tax a source of income that overwhelmingly goes to a small, predominantly white group of wealthy households.

Impact

House Bill 916 would likely **improve racial and economic equity** in Maryland.

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[i] Christopher Meyer, "Budgeting for Opportunity: How our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity/

[ii] David Juppe et al., "Executive Branch Staffing Adequacy Study," Department of Legislative Services, 2018, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Executive-Branch-Staffing-Adequacy-Study.pdf

[iii] Maryland State Department of Education–Division of Rehabilitation Services, https://dors.maryland.gov/consumers/Pages/waiting.aspx

[iv] House Bill 916 Fiscal and Policy Note.

[v] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf Maryland-specific data available at https://itep.org/whopays/maryland/

[vi] MDCEP analysis of Tax Year 2016 Statistics of Individual Income, Maryland Comptroller's Office. Here, "wealthiest 1 percent of households" refers to Maryland resident tax filers with at least $500,000 in Maryland adjusted gross income. In tax year 2016, 25,221 resident filers had Maryland AGI of at least $500,000, or 1.02 percent of the state's 2.48 million resident filers.

[vii] Matt Bruenig, "The Best Way to Measure the Overall Racial Wealth Gap," People's Policy Project, 2017, https://www.peoplespolicyproject.org/2017/09/29/the-best-way-to-represent-the-overall-racial-wealth-gap/

[viii] Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy