



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

**Testimony in Support of HB 201
Income Tax Rates – Capital Gains Income**

This bill would help to address socioeconomic and racial disparities in Maryland’s tax structure by implementing a 1 percent surtax on profits from the sale of investments.

What Are Capital Gains?

Capital gains are profits from the sale of stocks, bonds, real estate, a business, art, or other collectibles. Capital gains are only taxed when the asset is sold, and are not charged when an asset is sold at a loss, sold upon the death of the owner, or is donated to charity.¹ For many people, the sale of their primary home is not subject to capital gains.²

Capital Gains Are Concentrated Within Wealthy Households

According to the Center on Budget and Policy Priorities, “about 80 percent of capital gains go to the wealthiest 5 percent of taxpayers; 69 percent go to the top 1 percent of taxpayers. Wealthy households are disproportionately white: white families are three times likelier than families of color to be in the top 1 percent.”³

Even the conservative Tax Foundation 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 comes from capital gains.

¹ Dr. Leonard Burman, professor at Syracuse University.

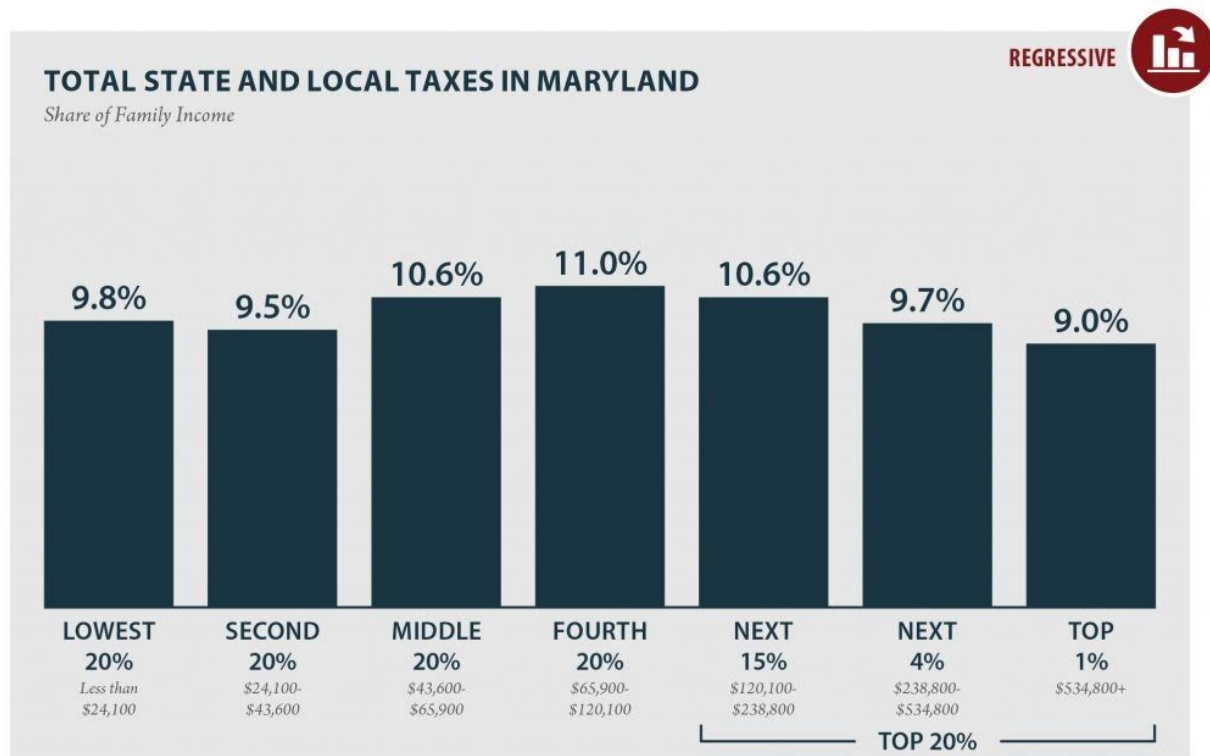
² For joint filers, the first \$500,000 of profit from the sale of primary residence is not subject to capital gains taxes if the owners lived in the home for at least two of the previous five years.

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/>

A Capital Gains Surtax Would Right Past Economic Wrongs

Our state tax code is currently upside down: the richest 1 percent pay a smaller share of their income in state and local taxes than any other Marylanders.⁵ This means that Maryland families making \$534,000 or more a year pay the lowest tax rate.



There is No Relationship Between Capital Gains Tax Rates and Economic Growth

The Congressional Research Service conducted a long-term study looking back to 1945 at the relationship between economic growth and the top capital gains or tax rate. The report found no statistically significant correlation between this tax rate and per capita GDP, investment, personal savings, or labor productivity. However, the report found that “changes in capital gains and dividends were the largest contributor to the increase in overall income inequality.”

⁵ Institute on Taxation and Economic Policy, <https://itep.org/whopays/maryland/>

What This Bill Does

Imposing a modest 1 percent surtax on capital gains would not only make our state's tax system fairer, it would also raise tens of millions of dollars at a time we are facing a multi-billion dollar deficit.

Several major categories of capital gains would be excluded, including retirement accounts; the sale of residential homes up to \$1 million in value; machinery, equipment, vehicles, and real property used by a business; affordable housing owned by a non-profit; livestock; and land in or being transferred into a conservation, forest, or agricultural preservation easement.