AMERICAN INVESTMENT COUNCIL
Growth Through Long-Term Investment

January 19, 2021

The Honorable Anne Kaiser
Chair, Ways and Means Committee
Maryland General Assembly
House Office Building, Room 131
6 Bladen St., Annapolis, MD 21401

The Honorable Guy J. Guzzone
Chair, Budget & Taxation Committee
Maryland State Senate
Miller Senate Office Building, 3 West Wing
11 Bladen St., Annapolis, MD 21401

Re: House Bill 215 and Senate Bill 288 – Income Tax – Carried Interest – Additional Tax

Dear Chair Kaiser and Chair Guzzone:

On behalf of the American Investment Council ("AIC"), I am writing to respectfully oppose HB 215 (Del. Carr) and SB 288 (Sen. Pinsky). This legislation represents a discriminatory tax increase that will drive financial services businesses and their high-paying jobs out of Maryland. It will also discourage risk capital that fuels many leading industries in the state.

The AIC is an advocacy, communications, and research organization established to advance access to capital, job creation, retirement security, innovation, and economic growth by promoting responsible long-term investment. Our members are the world's leading private equity and growth capital firms united by their commitment to growing and strengthening the businesses in which they invest. If this misguided legislative proposal is enacted, it will dramatically impede private equity and venture capital from investing in Maryland jobs, industries, and workers.

Specifically, this legislation will add a 17% surtax on top of the current ordinary state income tax for carried interest capital gains. This legislation will result in a 22.75% state income tax rate on carried interest in Maryland – a tax rate borne by no other category of income earned by any Maryland worker. This legislation is a punitive tax against returns on long-term investments made by private equity and venture capital. Carried interest capital gains are realized only by those investment partners who succeed in delivering substantial returns to their limited partner investors, who include state pension funds. It does not warrant such punitive and discriminatory treatment. Under Maryland law, carried interest capital gains is already taxed at the same rates as ordinary income. Maryland benefits enormously by having significant private equity and venture capital firms headquartered in the state and also through private equity and venture capital investments throughout the state. From 2014 to 2019, private equity invested nearly $50 billion to help grow and strengthen 490 Maryland businesses and employ 148,000.[1] In 2018 alone, private equity provided $10 billion in wages & benefits to Maryland constituents and $17 billion in value added to the Maryland economy.[2]

Notably, Maryland pensions also benefit from private equity. With 195,000 members, Maryland State Retirement and Pension System has $55 billion in assets under management and $7.8 billion invested in private equity. Private equity is the top performing asset for the System, net of fees and carried interest— helping diversify the pension's portfolio and ensure the retirement of the

[1] https://www.investmentcouncil.org/private-equity-at-work/in-your-state/#maryland
[2] See EY's Economic Contribution of the US Private Equity Sector in 2018 Study, Table 3, *available at* https://thisisprivateequity.com/

Systems members. The System's annualized 5 year return for the private equity is 12.3%. Furthermore, the System committing nearly, "$1.2 billion to developing managers that are minority and women-owned firms."[4]

This legislation will put private equity funds, venture capital funds, hedge funds, and other investors in Maryland at a competitive disadvantage with their out-of-state rivals and these in-state firms will be forced to leave in order to remain competitive. If passed, Maryland will be uncompetitive with New York, Nevada, Texas, and other states in the battle for top-quality investment talent. Maryland investment firms have been an integral part of Maryland's economic success. However, these firms and their managers do not have to be located in Maryland, nor do they have to invest in Maryland businesses.

Tech sector hubs like Seattle, Washington and Austin, Texas have no income tax. The consequences of this legislation are that Maryland-based funds will suffer under this measure making it more difficult for these firms to compete with firms based outside the state. A significant number of financial services businesses – and their high-paying jobs – will leave Maryland. This will shrink the tax base, produce less growth and revenue, and threaten Maryland's tech and bio-tech sectors.

Finally, we believe strongly that not only would Maryland not receive the estimated $45 million per year in additional revenue the proponents of the bill predict, but also the state and localities will lose the substantial $1.1 billion per year in tax revenue those individuals and firms are now paying.[3]

The AIC submits that it is counter-productive for Maryland to impose a punitive tax on carried interest and other investment management services income and we urge you to reject HB 215 and SB 288.

Respectfully submitted,

Brad Bailey
Senior Vice President

cc: Members of the Maryland State Assembly and State Senate

[4] https://sra.maryland.gov/sites/main/files/file-attachments/2020_msrps_cafr-web_final.pdf?1609769114
[3] See EY's Economic Contribution of the US Private Equity Sector in 2018 Study, Table 6, *available at* https://thisisprivateequity.com/