Testimony
HB 215 Income Tax – Carried Interested – Additional Tax
Ways & Means Committee
January 21st, 2021
Support

AFSCME Council 3 which representing 30,000 state and Higher Education employees supports HB 215.

House Bill 215 closes a tax loophole that currently allows investment fund managers to pay the lower capital gains tax rate on the portion of their compensation that is based on the success of the funds that they manage. This is the only industry that receives such tax benefits for its employees. House Bill 215 would close this loophole by allowing the state to collect revenue from Maryland taxpayers that would go to the federal government if it accurately classified carried interest as ordinary income.

The historical reasoning behind the lower capital gains tax rate was that individuals making investments in a new business, a new building, or the stock market are putting their own money at risk. Managers of private equity and hedge funds aren't putting their own money at risk. They are simply paid a larger or smaller amount for their work, depending on how well the fund performs.

There are many other types of industries where someone's pay is based at least in part on their performance, such as restaurant servers, sales people working on commission, and even other types of finance professionals. Those in all other industries pay the regular personal income tax rate on their salaries, bonuses, and commission.

Closing the carried interest loophole would generate about $40 million in revenue per year that could support new investments in state agencies, Maryland schools or other community priorities. Such spending would create jobs and boost consumer demand today, as well as lay the groundwork for a strong economy in the long run.

The carried interest loophole allows wealthy investment managers to pay a lower tax rate on their income than the majority of workers, weakening the economy and costing billions of dollars in revenue nationwide each year. If we ask state and Higher Education employees pay their fair share in tax for earned work. It's time to ask fund managers to pay their fair share by passing House Bill 215

For these reasons, we urge you to a favorable report on HB 215.