Testimony
HB 201 Capital Gains Income
Ways & Means Committee
January 21st, 2021
Support

AFSCME Council 3 which representing 30,000 state and Higher Education employees supports HB 201 which levies a 1 percent surtax on capital gains income.

Federal law taxes capital gains income at a total rate of 23.8 percent, compared to a top rate of 40.8 percent for ordinary income. Because capital gains can only result from the sale of a valuable asset, this tax break disproportionately benefits households with high income and significant accumulated wealth. Nearly two-thirds of capital gains income in Maryland goes to the wealthiest 1 percent, and more than half goes to households with more than $1 million in annual income. Nationwide more than 90 percent of capital gains income goes to the 10 percent of households with the most accumulated wealth.

House Bill 201 would strengthen our ability to invest in things like state agencies, Higher Education, health care, and our workforce by levying a 1 percent surtax on capital gains income. This surtax offsets a small portion of the special treatment households with capital gains receive under federal tax law, which applies a tax rate 17 percent lower on capital gains income than on income from work. This modest surtax would raise $121 million in fiscal year 2021, according to state analysts, rising to about $150 million per year in later years.

In addition to raising much-needed revenue, partially offsetting the special treatment of capital gains would make Maryland's tax code more equitable. Today, the wealthiest 1 percent of Maryland households pay a smaller share of their income in state and local taxes than the rest of us do. These same households receive 65 percent of all capital gains income in Maryland—and correspondingly, 65 percent of the special treatment afforded this income.

As Marylanders consider the major investments we will need to strengthen the foundations of our economy in future years from addressing understaffing in state agencies, transportation and public education, we should prioritize ending special interest tax breaks, making our tax code more equitable, and raising significant new revenue. House Bill 201 would accomplish all three goals.

For these reasons, we urge you to a favorable report on HB 201.