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February 2, 2021

Delegate Anne R. Kaiser
Chair, House Ways and Means Committee
Maryland House of Delegates
Room 131, House Office Building
Annapolis, MD 21401

RE: HB435-State Individual Income Tax – Millionaires' Tax
Position: **OPPOSE**

Dear Chairwoman Kaiser, Vice Chair Washington, and Members of the Committee:

On behalf of our 500-member businesses and more than 45,000 employees in Montgomery County, I am submitting this letter in **Opposition to HB435-State Individual Income Tax – Millionaires' Tax.**

This bill would drastically alter the State income tax rate for those individuals with annual income in excess of $1,000,000. At a time when all Marylanders are concerned about the direction of our economy during the worst pandemic in over a century, now is not the time to come up with Band-Aid tactics that have already been proven to have negative results.

Attached are two articles that prove our point. The first is a piece that appeared in The Wall Street Journal in September of 2018, titled "States That Single Out Their Millionaires for Punishment Always Lose." The second, titled "Maryland's Millionaires Missing After Income Tax Hike," which was written by the *Tax Foundation* in March 2010, two years after the State had imposed their 2-year millionaires' tax in 2008. This article points out that a Bank of America Merrill Lynch analysis of federal tax return data on people who migrated from one state to another found that Maryland lost $1 billion of its net tax base in 2008 – due to residents moving to other states.

At a time when residents and businesses can easily pick-up roots and move to another state without much impact on employees (most of whom are still working virtually), this is not the time to consider raising any taxes, let alone on those top taxpayers who the State is dependent upon.

We ask you to **please vote UNFAVORABLE** on this short-sighted bill which would have major ramifications to the State of Maryland and especially Montgomery County. Thank you for your consideration of our remarks.

Sincerely,

Allie Williams

Allie Williams
President & CEO

Sep 24, 2018, 10:37am EDT

States That Single Out Their Millionaires For Punishment Always Lose

Milton Ezrati Senior Contributor

Leadership Strategy

I am a Wall Street veteran and write on finance and economics.

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Rather than succumb to such temptations, politicians would do better to diversify their tax base, not to excuse the wealthy but to make sure that public finances avoid too great a dependence on them.

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several states impose such millionaires' taxes. Whatever the justice or injustice of such measures, they jeopardize government finances in at least two ways: (1) They threaten revenues by prompting the wealthy to flee jurisdictions that impose them, especially now that the federal tax code no longer subsidizes the wealthy in high-tax states and cities. (2) Because incomes of the wealthy frequently emerge from financial markets, the implicit reliance such taxes place on them fosters an unwelcome instability into state budgeting. Rather than succumb to such temptations, politicians would do better to diversify their tax base, not to excuse the wealthy but to make sure that public finances avoid too great a dependence on them. Pursuing a millionaire's tax or some such special levy on the wealthy makes for easy campaigning. The pain of such a law seems to hit only a small part of the electorate, while the politician proposing it can promise to use the proceeds to benefit large blocs of voters. Such promises are how politicians sold millionaires' taxes in the six jurisdictions that presently have them: California and New York are the largest. In New England, there is Maine and Connecticut. Massachusetts is also considering such a tax. New Jersey and the District of Columbia also impose such special tax levies. To be sure, one could easily explain these taxes as simply an extension of progressive taxing schemes, but they are seldom sold to the electorate that way. Proposers almost always aim to burden one group in an effort to win favor with larger voting bloc.

Things, however, seldom work out as the proposers describe. Typically, many of those burdened by the special taxes simply decamp for other jurisdictions. The very wealthy, after all, have much greater mobility than the average citizen. They often own homes in several locations and, without even giving up their residence in the high-tax jurisdiction, can easily change their official residence simply by suffering the minor inconvenience of

Of course, it is hard to know what motivates people. No one polls those leaving or those staying and certainly not those from elsewhere who, when choosing a home, avoid high-tax jurisdictions. Tax matters are seldom the only factor in a person's decision about where to live. Still, it would defy logic to suggest that a special tax has no effect. Certainly, taxes played a role for one New Jersey resident. When in 2015 the state passed its millionaires' tax, its richest resident, a hedge fund manager identified as David Tapper, suddenly declared himself a resident of Florida, where he had long had a home as well. He later moved the headquarters of his firm, Appaloosa Management, to Miami. These two decisions, tax experts say, cost the state "hundreds of millions in revenue" over time, from him and his employees.

Other states provide other examples. When one-time New York resident, Tom Golisano, left for Florida, citing high taxes as the reason, New York State calculated that this one decision cost the state revenue $4 million in the following year. Earlier in the century, when California passed the first of several special levies on high-income residents, one fifth of the seven-figure earners in the state left for less burdensome parts. Economists estimate that the move accounted for the state's "surprise" 2003 budget deficit. When in 2012 California imposed another disproportionate tax on the wealthy, Census Bureau figures show that it turned what had been a balance of in and out migration by high-income families decidedly negative.

Washington's recent tax reform will only increase flight risk. Because it limits to $10,000 federal deductions against state and local taxes, it makes state taxes, particularly for high-income people, that much more onerous. Take, for example, a person earning $1 million a year in a state that imposes a 10% tax rate. In the past, the person could write the whole $100,000 tax bill off his or her federal returns. Now, because of the limit, that person write off adds to the adjusted gross income used to calculate state and local tax. Some states, taking account of this effect, have adjusted down their tax rates accordingly. The jurisdictions that have millionaires' taxes have, however, refused, burdening their wealthy taxpayers that much more and accordingly giving them that much greater reason to leave.

Many downplay the flight risk. They often use the example of Maryland. When in 2008, the state imposed a millionaire's tax, the number of tax returns reporting a million or more in income fell by one-third. Migration was surely a factor, but those questioning the effect suggest reasonably that a much larger impact came from the huge loses imposed by the financial crises of 2008 and the subsequent recession. No doubt the economic and financial setbacks of the time rendered several Maryland millionaires less impressively wealthy than in the previous year. It is impossible to sort out which effect prevailed without invading the privacy of many Marylanders as well as Marylanders who became Virginians. But even if most of the millionaire shortfall came from losses and not migration, the result nonetheless points to the second problem facing states and cities that go this route.

Millionaires' taxes invite financial volatility. By concentrating the jurisdiction's dependence for revenues on a relatively small group, they open the state's finances to any problem with any of its members. Business setbacks by very few can then unhinge revenue calculations and so budget planning. Commerce Department statistics show how concentrated on a small group these states are. On average, they depend on the top 1% of their income distributions pay a third of their total income tax revenue. California statistics make clear that almost one fifth of the state's income tax revenue emerges from just over 5,500 taxpayers. But here, too, there is to point up the problems implicit in the great dependence that a millionaires' tax places on this group alone.

There is ample reason to expect the migration effect to intensify later this year and into 2020. During that time, the wealthy in high-tax states will learn the full extent of the tax burdens imposed by the recent federal tax reform. As they shift their residence of record, states that have sought to burden them in particular will face burdens of their own. The vulnerability to financial and economic cycles implicit in these tax structures will take longer to become clear. Right now, the market rally and the economy's renewed strength will likely benefit the wealthy disproportionately and, accordingly, the states whose revenues depend disproportionately on this group's prosperity. That benefit will accrue even if some of these people decamp to other jurisdictions. But few can doubt that sooner or later, markets and the economy will face setbacks. When that time comes, as it inevitably will, those states and cities that have tied themselves to millionaires' taxes or something like them will suffer a particularly difficult revenue shortfall. Let us hope that then their politicians can resist the temptation to double down on the very policies that will have caused their troubles.

I consult on economics and investment strategy and serve as chief economist for the NY-based communications firm, Vested. I am a contributing editor for The National...

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TAX FOUNDATION

Maryland's Millionaires Missing After Income Tax Hike

March 12, 2010

Joseph Bishop-Henchman

In 2008, Maryland added four new income tax brackets, including a top rate of 6.25% on income over $1 million. (This is in addition to county income taxes, which average 2.98%.)

As we and others have noted before, the Comptroller of Maryland has reported that the number of "millionaire" returns tumbled sharply between 2007 and 2008, a 30% drop in filers and 22% drop in declared income. Rather than income taxes from this group rising by $106 million, they fell by $257 million.

The recession is certainly a contributor: everyone is earning less. But the Comptroller did an interesting additional analysis: how many people filed as millionaires before the tax increase, then *did not file at all* the following year? The *Wall Street Journal* explains the findings (http://online.wsj.com/article/SB10001424052748703976804575114241782001262.html?mod=djemEditorialPage_h):

One-in-eight millionaires who filed a Maryland tax return in 2007 filed no return in 2008. Some died, but the others presumably changed their state of residence. (Hint to the class warfare crowd: A lot of rich people have two homes.)

A Bank of America Merrill Lynch analysis of federal tax return data on people who migrated from one state to another found that Maryland lost $1 billion of its net tax base in 2008 by residents moving to other states. That's income that's now being taxed and is financing services in Virginia, South Carolina and elsewhere.

States like Florida and Texas have no personal income tax, so the savings for a rich person who stops paying taxes in Baltimore or Montgomery County can be in the hundreds of thousands of dollars each year. Montgomery County, outside of Washington, D.C., is Maryland's wealthiest and was especially clobbered, losing nearly $4 billion in taxable income in 2008, with some 80% of those lost dollars from high-income returns.

Thanks in part to its soak-the-rich theology, Maryland still has a $2 billion deficit and Montgomery County is $760 million in the red. Governor Martin O'Malley's office tells us he wants the higher rates to expire "as scheduled at the end of 2010." But there are bills in both chambers of the legislature to extend the surcharge. The state's best hope is that politicians in other states are as self-destructive as those in Annapolis.

We've always emphasized that millionaires' taxes do long-term damage to a state's economy, but here is significant evidence that the damage may be nearer-term than at least I earlier thought.

More on Maryland here