Maryland Can Invest in our Future by Asking More of Wealthy Investors

Position Statement in support of House Bill 201

Given before the House Ways and Means Committee

An effective revenue system is an essential tool to enable Maryland to protect our investments in the foundations of our economy, such as public health, education, and transportation. Just as importantly, a fair tax system is essential to push back against the increasing concentration of wealth and power in a few hands. All Marylanders benefit when we have sufficient resources to invest in the basics, and these investments can be particularly important to break down the barriers—built through past and present policies—that hold back many Marylanders because of their race, gender, a disability, or another aspect of their identity. The Maryland Center on Economic Policy supports House Bill 201 because it would likely raise upward of $120 million each year while partially offsetting special treatment that overwhelmingly benefits small number of super-wealthy, predominantly white households.

Maryland has been underinvesting in the foundations of our communities ever since the Great Recession. For example:

- The state never rebuilt its support for local departments of health following deep cuts during the economic crisis, forcing staffing and service cuts in every county and undermining our ability to respond to the coronavirus pandemic.[i]
- We chipped away at public school funding, allowing the number of school districts that were close to full funding under the Thornton formula to fall from 23 out of 24 in fiscal year 2008 to only six by 2017—with more than half of the state's Black students going to school in a district that was underfunded by 15 percent or more.[ii]

House Bill 201 would strengthen our ability to invest in things like public health, education, and sufficient child care 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 likely raise more than $120 million each year, based on past estimates by the Department of Legislative Services.[iii]

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.[iv] These same households receive 65 percent of all capital gains income in Maryland—and correspondingly, 65 percent of the special treatment afforded this income.[v]

House Bill 201 would improve the racial equity of our tax code because it asks more of households whose income comes primarily from wealth rather than work. The wealthiest 10 percent of white households (less than 7 percent of all households) control nearly two-thirds of all household wealth in the United States.[vi] More than 90 percent of capital gains income goes to the wealthiest 10 percent of households, a group that includes 13 percent of white households nationwide but less than 2 percent of Black households.[vii]

Three years after the passage of the Trump administration's signature federal tax overhaul, which gave trillions away to wealthy individuals and large corporations, House Bill 201 would use a small portion of that windfall to support essential state services such as public health. In Maryland, more than half of the federal tax law's tax cuts went to the wealthiest 5 percent of households, while the 60 percent with annual income under $80,000 got only 16 percent of the benefits.[viii] Because the law focuses on cutting taxes on corporate profits and inherited wealth, its benefits were heavily skewed to the overwhelmingly white households with the most built-up assets.

As Marylanders consider the major investments we will need to recover from the pandemic and rebuild our economy, 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, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 201.

Equity Impact Analysis: House Bill 201

Bill summary

House Bill 201 levies a 1 percent surtax on capital gains income.

Background

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.

Equity Implications

House Bill 201 would bring significant equity benefits:

- 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. House Bill 201 would make our tax code more balanced by asking more of these high-income households.
- One in 10 households nationwide had at least $1.2 million in built-up wealth, as of 2016. This group included 13 percent of white households, 5 percent of all households of color, and less than 2 percent of Black households. A smaller group, the 10 percent of white households with the most built-up wealth, control nearly two-thirds of household assets nationwide. House Bill 201 would tax a source of income that overwhelmingly goes to a small, predominantly white group of wealthy households.
- Partially offsetting special treatment of capital gains income would generate revenue that could be invested in things like public health, world-class schools, and sufficient child care assistance. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 201 would likely **improve racial and economic equity** in Maryland.

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[i] Christopher Meyer, "Lessons from the Great Recession: Policymakers Must Reject Deep Budget Cuts for a Strong Recovery," Maryland Center on Economic Policy, 2020, http://www.mdeconomy.org/recession-budget-cuts/

[ii] Christopher Meyer, "Budgeting for Opportunity: How our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity/

[iii] House Bill 222 of 2020 Fiscal and Policy Note

[iv] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf

[v] MDCEP analysis of Maryland Comptroller's Office, statistics of personal income.

[vi] Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy

[vii] MDCEP analysis of Survey of Consumer Finances
Matt Bruenig, "The Best Way to Represent the Overall Racial Wealth Gap," People's Policy Project, 2017, https://www.peoplespolicyproject.org/2017/09/29/the-best-way-to-represent-the-overall-racial-wealth-gap/

[viii] Institute on Taxation and Economic Policy, "TCJA by the Numbers, 2020," https://itep.org/tcja-2020/