Dear Chair Guzzone and other members of the Budget and Taxation Committee,

My name is Erica Payne. I am the founder and president of the Patriotic Millionaires, a nationwide network of high net worth Americans - including several in Maryland - who share a profound concern about economic inequality in our country, which has reached historic and destabilizing levels.

As their representative and a Maryland resident myself with an MBA from the Wharton Business School, I am here today to support SB361, a critical piece of legislation that would close the carried interest loophole on a state level, and in the process would raise tens of millions of dollars a year in much-needed revenue for the state of Maryland without costing 99.9% of taxpayers a dime.

The carried interest loophole is a loophole in the federal tax code that allows private equity fund managers, some of the wealthiest people in the world who often earn millions of dollars a year, to incorrectly classify their earnings as capital gains rather than ordinary income.

In the process they cut their tax bill nearly in half, paying the capital gains rate, just 20%, rather than the top income tax rate of 37%. This leaves them paying a lower tax rate than their secretaries or the janitors who clean their offices, and in fact a lower top tax rate than anyone making more than $40,000 a year in income.

This special tax break is entirely undeserved. The income that's classified as carried interest is just a fee that fund managers earn from their investors in exchange for managing their money. In any other industry this type of income would be taxed as normal income, but thanks to this loophole it's taxed at the lower capital gains rate.

The federal capital gains tax rate is lower than the income tax rate because the government believes that by incentivizing investment and risk-taking, it will spur growth. But fund managers invest no money of their own and take on no risks, they just manage other people's investments. Their earnings meet none of the standard criteria to be classified as capital gains, and should not be taxed as such.

Private equity managers claim that while they might not invest money, they invest their time and expertise through something they call "sweat equity," which should qualify their earnings as capital gains. But the investment of time and expertise in exchange for payment is quite literally the definition of employment. Every person who has ever worked a day in their life has traded their time and expertise in exchange for money.

This argument is clearly nonsense, yet it's the basis for the entire premise of giving carried interest special treatment.

This loophole is so ridiculous that even Donald Trump famously declared that people using the carried interest loophole were "getting away with murder." But when it came time for Republicans to rewrite the federal tax code when they passed the Tax Cuts and Jobs Act in 2017, they almost completely ignored the carried interest loophole. By closing this loophole on a state level, Maryland has a chance here to show the nation, and legislators in the nearly dozen other states that are considering similar legislation, that better things are possible.

And don't worry about whether or not millionaires are going to leave the state when you tax them - study after study shows that rich people don't actually move to avoid taxes. In fact, New York significantly raised taxes on millionaires a few years ago, but today the number of millionaires in the state is higher than it's ever been.

This should be a no-brainer. If we can raise tens of millions of dollars for housing, healthcare, education, or public safety by requiring a few hundred millionaires and billionaires to pay the tax rate they should have been paying all along, then we should do it.

Hi, my name is Erica Payne. I am the founder and president of the Patriotic Millionaires, a nationwide network of high net worth Americans - including several in Maryland - who share a profound concern about economic inequality in our country, which has reached historic and destabilizing levels.

As their representative and a Maryland resident myself with an MBA from Wharton Business School, I am here today to support HB439, a critical piece of legislation that would close the carried interest loophole on a state level, and in the process would raise as much as $45 million a year in revenue for the state of Maryland.

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In the process they cut their tax bill nearly in half, paying the capital gains rate, just 20%, rather than the top income tax rate of 37%. This leaves them paying a lower tax rate than their secretaries or the janitors who clean their offices, and in fact a lower top tax rate than anyone making more than $40,000 a year in income.

This special tax break is entirely undeserved. The basic way a private equity fund works is that a group of people give their money to the managers of a fund, the fund managers manage that money for their investors, then investors pay the managers a fee that’s a percentage of the total value of the fund and a percentage of the fund’s profits. That percentage of the fund’s profits is called carried interest, and despite it being a fee for a service, which is taxed as income in virtually every other industry, it’s instead taxed under the lower capital gains rate.

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Private equity managers claim that while they might not invest money, they invest their time and expertise through something they call “sweat equity,” which should qualify their earnings as capital gains. But the investment of time and expertise in exchange for payment is quite literally the definition of employment. Every person who has ever worked a day in their life, from the most brilliant scientist all the way down to a teenager mowing lawns, has traded their time and expertise in exchange for money. This argument is clearly nonsense, yet it's the basis for the entire premise of giving carried interest special treatment.

This loophole is so ridiculous that even Donald Trump famously declared that people using the carried interest loophole were "getting away with murder." But when it came time for Republicans to rewrite the federal tax code when they passed the Tax Cuts and Jobs Act in 2017, they almost completely ignored the carried interest loophole.

By closing this loophole on a state level, Maryland has a chance here to show the nation that better things are possible. Legislators in nearly a dozen other states are considering similar legislation, but none have pulled the trigger yet. By closing this loophole - passing a piece of legislation that on a very basic level simply corrects a mischaracterization of income at the federal level – we could kick off a nationwide trend, and in the process generate as much as $45 million a year in revenue.

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This should be a no-brainer. If we can raise $45 million dollars for housing, healthcare, education, or public safety by requiring a few hundred millionaires and billionaires to pay the tax rate they should have been paying all along, then we should do it.