MDCEP
MARYLAND CENTER ON ECONOMIC POLICY
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Businesses Should Pitch In for the Investments that Uphold Maryland's Economy

Position Statement in Opposition to Senate Bill 403

Given before the Senate Budget and Taxation Committee

An effective revenue system is an essential tool to enable Maryland to invest in the foundations of our economy, such as education, health care, 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. Businesses rely on the shared investments we make as a state, and corporate filing fees are one of the ways they pitch in to support those investments. Senate Bill 403 would absolve them of that responsibility. **For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 403.**

Maryland already has a lot to offer as a place to do business. We have the highest median household income among the 50 states.[i] Our workforce is highly educated, with the second-highest share of advanced degree holders.[ii] And our mix of taxes and services is among the most favorable to businesses, according to the accounting and consulting firm Ernst and Young.[iii] The firm's analysis finds that businesses get $1.43 in benefits for every $1.00 paid in Maryland state and local taxes.

The evidence is clear that Senate Bill 403 would bring little benefit to our economy:

- Business leaders consistently rate skilled workers, reliable transportation, and quality of life as among the most important factors they consider when choosing where to locate. [iv] Taxes and other revenues are how we support those assets. In one survey of founders of fast-growing companies, only 5 percent even mentioned tax rates as a factor in their location decisions. One reason taxes aren't businesses' top priority is that they pale next to cost drivers like payroll and real estate, with taxes only amounting to 2 to 3 percent of most businesses' costs.[v]
- Most job creation comes from young, homegrown companies expanding—and most entrepreneurs launch a business in the state where they already live.[vi] Demand is a more important factor than taxes when these businesses consider expanding.

Senate Bill 403 is primarily a giveaway to individuals with significant built-up wealth, who own the bulk of business equity. Multiple intersecting areas of historical and continuing racist policy have largely shut Black Marylanders and other Marylanders of color out of this group. The wealthiest 10 percent of white households nationwide (about 6 percent of all households) control nearly two-thirds of all built-up wealth—leaving less for everyone else, including the majority of white households and nearly all households of color.[vii] In Maryland, tax filers with income over $250,000 are several times as likely as everyone else to report types of income related to business ownership.[viii]

While the benefits of business tax cuts are minimal, the associated harms are substantial. Senate Bill 403 would cost the state $36 million in lost revenue in fiscal year 2023, rising to $48 million per year by FY 2027.[ix] By reducing the resources available to invest in the foundations of Maryland's economy, the bill would heighten the economic barriers that hold back too many Marylanders. Our unmet needs in areas like education, health care, and transportation are beginning to pile up, and Marylanders of color often bear the greatest costs. Senate Bill 403 is part of a pattern on the part of Gov. Hogan of prioritizing large businesses and wealthy individuals over the foundations of thriving Maryland communities. This bill is one part of a fiscal plan that shorts public schools by $140 million while handing out $224 million in lopsided tax breaks.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make an unfavorable report on Senate Bill 403.

Equity Impact Analysis: Senate Bill 403

Bill summary

Senate Bill 403 would eliminate annual filing fees for documents submitted electronically by a corporation or other business entity.

Background

Business leaders consistently rate skilled workers, reliable transportation, and quality of life as among the most important factors they consider when choosing where to locate.[x] In one survey of founders of fast-growing companies, only 5 percent even mentioned tax rates as a factor in their location decisions.

State and local taxes paid by businesses totaled 3.8% of Maryland's private-sector economy in FY 2020, according to analysis by the accounting and consulting firm Ernst and Young. This is substantially below the nationwide "total effective business tax rate" of 4.5%.

The same report states that businesses in Maryland pay as little as $0.70 in state and local taxes for each $1.00 of investments benefiting businesses, equivalent to $1.43 in benefits per $1.00 paid. By this measure, Maryland has the 5th-most business-friendly mix of taxes and expenditures nationwide.

Equity Implications

Senate Bill 403 would likely hand the largest tax cuts to wealthy, predominantly white individuals.

Business filing fees are ultimately paid by people who have an ownership stake in a business. Data on the types of income Maryland tax filers report indicate that wealthy individuals are considerably more likely than others to hold business equity—and are therefore more likely to receive a tax break from Senate Bill 403:

Share of Tax Filers Reporting Business-Related Income, TY 2018			
	Wealthiest 5% MD AGI > $250k	**Other 95%** MD AGI < $250k	**Ratio**
Dividends	71%	20%	3.6x
Business Income	28%	18%	1.5x
Capital Gains	69%	17%	4.0x
Partnership Income	35%	4%	8.0x
Source: MDCEP analysis of Maryland Statistics of Individual Income, TY 2018.			

The wealthiest 10 percent of white households nationwide (about 6 percent of all households) control nearly two-thirds of all built-up wealth—leaving less for everyone else, including the majority of white households and nearly all households of color.[xi]

Eliminating business filing fees would erase revenue the state could otherwise invest in Maryland communities. Our growing underinvestment in essential services like education, health care, and transportation harms all Marylanders, and at the same time has outsized impacts on people who face structural barriers because of low income or the ongoing legacy of racist policy. Even during a period of fiscal strength, lopsided tax breaks weaken the state's ability to invest in broadly shared prosperity.

Impact

Senate Bill 403 would likely **worsen racial and economic inequity** in Maryland.

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[i] 2020 Small Area Income and Poverty Estimates.

[ii] 2019 American Community Survey one-year estimates.

[iii] "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2020," Ernst & Young LLP, 2021, https://www.ey.com/en_us/tax/fy-20-total-state-and-local-business-taxes

[iv] Geraldine Gambale, "35th Annual Corporate Survey: Effects of Global Pandemic Reflected in Executives' Site and Facility Plans," *Area Development*, 2021, https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2021/35th-annual-corporate-survey.shtml
Rhett Morris, "What Do the Best Entrepreneurs Want in a City? Lessons from the Founders of America's Fastest-Growing Companies," Endeavor Insight, 2014, https://issuu.com/endeavorglobal1/docs/what_do_the_best_entrepreneurs_want

[v] Robert Tannenwald, "Testimony of Robert Tannenwald, Senior Fellow, Before the New Hampshire Business Tax Commission," Center on Budget and Policy Priorities, 2010, https://www.cbpp.org/testimony-of-robert-tannenwald-senior-fellow-before-the-new-hampshire-business-tax-commission

[vi] Michael Mazerov and Michael Leachman, "State Job Creation Strategies Often Off Base," Center on Budget and Policy Priorities, 2016, https://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base

[vii] 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

[viii] MDCEP analysis of Maryland Statistics of Individual Income, TY 2018. See table in Equity Impact Analysis.

[ix] Department of Legislative Services 2022 Fiscal Briefing

[x] Gambale,2021.
Morris, 2014.

[xi] Leachman et al., 2018.