

February 9, 2022

Testimony on Senate Bill 361
Income Tax - Carried Interest - Additional Tax
Senate Budget and Taxation Committee

Position: Favorable

Maryland Nonprofits is a statewide association of more than 1300 nonprofit organizations and institutions. As a member of the Fair Funding Coalition we strongly urge you to support Senate Bill 361 to make our system of business taxation more equitable.

The Maryland Fair Funding Coalition supports proposals that eliminate loopholes and tax breaks that benefit special interests and fix our upside-down tax code, which allows the wealthiest individuals to pay the smallest share of their income in state and local taxes. Fixing our tax system will ensure that large corporations and wealthy individuals are paying their fair share for the public services we all rely on.

Senate Bill 361 will close the ‘carried interest’ loophole that allows wealthy investment fund managers to pay a special, low tax rate on their income. Like thousands of other Maryland workers, from restaurant servers to salespeople, private equity and hedge fund managers are paid partly on the basis of their performance. Unlike other workers, wealthy fund managers pay a special, low tax rate on this income — **the capital gains rate**, rather the standard income tax rate. This special treatment violates core principles of effective tax policy by taxing similar activities at different rates and shifting tax responsibility away from those who can best afford to pay.

SB 361 would offset this special tax break that powerful special interests convinced Congress to enact and ask wealthy fund managers to pay their fair share in Maryland. It would also increase revenue by more than \$40 million annually. This is new revenue that could significantly contribute to the needs of families and small businesses recovering from the pandemic and support core public services in the long term.

For a strong recovery from COVID-19 and to support long-term investments that allow all Maryland families and communities to thrive, it’s time to reform Maryland’s tax code to make it more effective and more equitable. **Therefore, we urge a favorable report on SB 361.**