Paul Sundell Testimony to House Ways and Means Committee on House Bill 420 and Senate Budget and Taxation committee Bill 405

My name is Paul Sundell and I am a registered democrat and retired federal macro economist who lives in Severna Park.

Conclusion: From a tax standpoint Maryland is a very unfriendly state to retires and lower income taxpayers.
House Bill 420 and Senate Bill 405 would greatly improve the situation over time.

A. Maryland Is Among the Worst States In the Country From A Tax Stand Point For Retirees. Problems are in the areas of limited deductibility of retirement income, high marginal tax rates, and the non-indexing of the Maryland Tax code to inflation. Maryland is the worst of its adjoining states for retirees. From a tax standpoint it is far worse than other southern states popular with retirees such as South Carolina and Florida. Included Tables are from Kiplinger State by State Tax Guide for Retirees https://www.kiplinger.com/kiplinger-tools/retirement/t055-s001-state-by-state-guide-to-taxes-on-retirees/index.php

Maryland retires and others on fixed income or low to moderate income Marylanders are also hurt by the fact less than one third of Maryland's personal income tax code is indexed to inflation. The standard deduction is indexed to inflation but most other deductions and exemptions are not and tax brackets are not indexed to inflation. The standard deduction is still low ($2350 for a single filers this year) since it was not indexed to inflation until 2018. The minimal indexing of the tax code to inflation causes for a given rise in inflation Maryland taxpayer payments to increase by more than inflation. This causes a fall in the person's real personal income and a lower standard of living for the tax payer. Current high inflation is exacerbating this distortion. Maryland should fully index its tax code to inflation like the federal tax code.

More retirees are moving from high tax states to lower tax states and 13 states already do not tax retirement income from pensions and social security. The Census Bureau estimates that Maryland actually lost population between April 2020 and July 2021. United Van Lines national migration survey indicates that retires are leaving in substantial numbers. Over the last five years in bound retirees represented 9.24 percent of people moving into Maryland while 24.67 percent of those leaving Maryland were retirees.

B. Maryland Retirees Deserve A Tax Break from an Economic Efficiency and Equity Standpoint

1. Vast majority spent prime working years in Maryland.

2. Consume less state resources on average

3. Children are out of school system

4. Drive Less Thus less Wear and tear On Roads
5. Retirees spend money and are active in charitable giving.
6. If retirees leave the state Maryland collects nothing from them in taxes and federal program payments based on population are lost as well as possible representation in Washington.
7. Maryland estate and inheritance taxes are lost.

I favor the Hogan proposal but there should be room for compromise between the legislature and the governor. In my opinion, a second best solutions but workable would be for the state to substantially increase the retirement income deduction and the over 65 and or disabled deduction. Moreover these deductions as well as tax brackets should be indexed to inflation.so that the purchasing power of these deductions are maintained over time . I do not believe the relatively small personal exemption levels should not be reduced for singles and couples making over 100K and 150K as the combined Maryland marginal state and local tax rates are high by most state's standards. Seniors income is often temporarily increased by withdrawals from retirement accounts.

Unfortunately the state democratic party has killed in committee past Hogan tax reduction bills for seniors while offering no significant tax reductions for seniors counter proposals. This is not compromise and indicates little concern for the financial well-being of Maryland seniors. In my opinion, with Maryland having a $4.6 billion dollar surplus entering 2022, in it would be inexcusable not to reduce senior Marylander's tax bills significantly this legislative session. Tax reform for seniors and low and moderate income Marylanders is long overdue and should not be held hostage by other state spending proposals as has been the case in the past. Seniors with their migration out of the state are telling politicians that they are not happy with Maryland tax policy toward seniors. Seniors are also a very active voting group and will let their thoughts known at the polls and this is a key issue with Maryland seniors.