A Fairer Tax Code Would Enable Stronger Investments in Maryland Communities

Position Statement in Support of House Bill 337

Given before the House Ways and Means Committee

House Bill 337 takes several important steps to improve Maryland's tax code, potentially generating hundreds of millions in new revenue by asking wealthy individuals and multinational corporations to pay their fair share. The bill partially offsets special treatment of income from wealth rather than work in the federal tax code and decouples Maryland from several counterproductive provisions of former President Trump's 2017 tax law. **The Maryland Center on Economic Policy supports House Bill 337** because it makes several changes that would enable greater investments in Maryland communities and make our tax code fairer:

- Partially offsets special treatment of capital gains income under federal law with a 1% surtax. Capital gains income rewards wealth rather than work, and as of tax year 2020, 70% of household capital gains income in Maryland went to the 1.1% of households with $500,000 or more in federal adjusted gross income.[i].

- Ends special treatment of real estate investment trusts (REITs). REITs – vehicles similar to mutual funds that invest exclusively in real estate – are allowed to deduct 100% of any dividends paid to investors under federal law. This deduction essentially makes REITs tax-exempt, similar to LLCs and other companies that are able to avoid corporate taxation. REITs can also use this tax break to reduce their Maryland taxes, even though Maryland lawmakers never affirmatively enacted a state-level deduction. House Bill 337 would require REITs to include these dividends in their income for state taxes.

- Decouples Maryland from several tax breaks created by former President Trump's signature 2017 tax overhaul, which exclusively benefit large multinational corporations. These tax breaks were automatically incorporated in Maryland law without any say by Maryland lawmakers. These provisions of House Bill 337 adopt some components of President Biden's tax agenda that died in Congress. The bill also prevents corporations from "double-dipping" by claiming certain state deductions that overlap with the 2017 tax law.

- Strengthens protections in Maryland law to reduce the amount of profits corporations can artificially shift into low-tax jurisdictions. These protections partially address some of the worst corporate tax abuses allowed under Maryland's separate reporting framework.

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. Collecting sufficient revenue is especially important as we work to rebuild hollowed-out state agencies and guarantee all students a world-class education. 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.

Just as importantly, a fair tax system is essential to push back against the increasing concentration of wealth and power in a few hands. 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, due in large part to corporate tax loopholes and lopsided tax breaks.[ii] House Bill 337 would also 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.[iii]

Maryland has a lot to offer as a place to live and do business, and will retain these advantages with fair tax reforms that support increased investments in the foundation of our economy. We have the highest median household income nationwide.[iv] Our workforce is highly educated, with the second-highest share of advanced degree holders among the 50 states. We have the second-highest share of millionaire households nationwide.[v] And our mix of taxes and services is the second-most favorable to business nationwide, according to the accounting and consulting firm Ernst and Young.[vi] Maryland businesses get $1.43 in benefits for every dollar they pay in state and local taxes.

House Bill 337 represents an important step forward for Maryland's revenue system. If enacted, it would help us make the investments needed to rebuild an effective state government and invest in Maryland's future.

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 337.

Equity Impact Analysis: House Bill 337

Bill summary

House Bill 337 includes several reforms to Maryland's tax code:

- Levies a 1% surtax on capital gains income
- Requires an addback of dividends paid by real estate investment trust
- Decouples from federal tax breaks for foreign-derived intangible income and dividends received from a foreign corporation under the 2017 Trump tax overhaul
- Strengthens guardrails to prevent tax avoidance through payments between related corporate entities

Background

- The highest federal tax rate on capital gains income is 17 percentage points lower than the highest rate on income from other sources.
- Former President Trump's 2017 tax overhaul exempted most corporate profits related to

operations in other countries from taxation.

Equity Implications

- Corporate tax loopholes, the federal special treatment of capital gains, and special treatment of real estate investment trusts all exclusively benefit households that hold corporate stock, REIT shares, and other financial assets. These benefits primarily flow to the small number of wealthy households that hold the bulk of such assets. Multiple intersecting areas of historical and continuing racist policy have made household wealth in the United States heavily lopsided. The wealthiest 10% of white households nationwide (about 6% of all households) control nearly two-thirds of all built-up wealth.[vii] House bill 337 would ensure that our tax code does not place greater responsibilities on people who derive their income from work than on those whose income comes from wealth, and thereby lower one barrier that holds back many Marylanders of color.
- Fair tax reform would generate revenues that could be invested in things like world-class schools, improved customer service at state agencies, and reliable transit. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 337 would likely **improve racial and economic equity** in Maryland.

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i MDCEP analysis of IRS Historic Table 2, TY 2020.

ii 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

iii 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

iv 2021 American Community Survey one-year estimates.

v "American States with the Highest Ratio of Millionaire Households Per Capita in 2020," Statista, 2022, https://www.statista.com/statistics/294941/largest-ratio-millionaire-households-per-capita-us/

vi Andrew Phillips, "Total State and Local Business Taxes for FY21," Ernst & Young LLP, 2022, https://www.ey.com/en_us/tax/total-state-and-local-business-taxes-for-fy21

vii Leachman et al., 2018