Testimony by Paul Sundell on Senate Bill 498 and House Bill 369: Income Tax - Senior Tax Credit Alterations

I Believe the Two Bills Especially With Some Adjustments Will Help Maryland Keep More Of its Senior Population

I back Senate Bills 498 and HB 369. However I believe some adjusts in income limits and credit size should be made. I believe that the brackets top income limits that qualify for the credit be raised by rate of inflation over the last two years. Using the CPI-W inflation increased 12.61 percent over the 2021 to 2023 period. I believe Maryland uses the CPI-W to index the standard deduction in the individual tax return but I was not able to verify it with certainty. Using the CPI-W, the $250 increase in the deduction for lowest bracket earners both individual and joint and represents a positive increase in the real inflation adjusted value of the tax credit over the last two years. However the top income measures that apply to the credit are unchanged and I believe should be increased by the inflation index used. In addition the credit amount should be increased by the inflation index for those that do not qualify for the full credit.

In my opinion, the bill is a net positive in addressing the mass exodus of seniors out of the state and helps strengthen Maryland's tax base. The bill displays pragmatism in addressing a serious issue in Maryland and that is a lack of state competiveness from an individual tax payer standpoint. I thank Senator Gile and Delegate Vogel for showing pragmatism in addressing a serious problem for the state. However I believe because of no change in the bills top income limits, a greater percentage of Maryland seniors will not qualify for the tax credit than qualified two years ago. In addition with no increase in the nominal credit value to compensate for inflation, the real value of the credit for those seniors not eligible for the full credit falls.

I am a retired federal macro economist that lives in Maryland. I have been a registered democrat my entire time as a voter and have lived in the state for over 30 years. I vote strongly for the democratic party in national elections but I have become more of an independent voter at the state and local level as I have not been happy with the high rate of increases in real state spending and increases in Maryland taxes either through direct higher tax rates or failing meaningfully to adjust the Maryland tax code to inflation. The data indicates that this is significantly leading to an exodus of seniors and upper middle and higher income earners from the state.

I believe Maryland lower income and senior tax payers deserve a significant tax break.

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 charity giving
6. If retirees leave the state Maryland collects nothing from its inheritance and estate taxes.

Maryland Needs to Become More Tax Competitive Relative to Its Neighboring and Near By States

Maryland in terms of the percentage of median income taxed through various means represents the sixth highest in the country for middle class tax payers according to Kiplinger https://www.kiplinger.com/taxes/least-tax-friendly-states-for-middle-class-families. I strongly believe that the Maryland tax code should be fully indexed to inflation like the federal tax code has been since 1985. This would help make the Maryland tax code inflation neutral in real terms to inflation. By not indexing the tax code to inflation, if inflation occurs and your income increases by inflation, your state and local income tax burden will increase by more than inflation, holding all other factors constant. Over time this becomes a major financial drain, especially on low income Marylanders and retirees. I believe some discretion in adjusting the tax code to inflation should be available each year in the adjustment of the tax code to inflation, but I believe that it should require a full up and down vote by the state legislature and a vote by the Governor to modify a mandated inflation adjustment each year.

Maryland has one of the highest real individual tax burdens in the country in part because Maryland is a high income state with relatively small tax deductions and high combined state and local tax rates. Overall of those entering or leaving the state, 52 percent are leaving the state https://www.unitedvanlines.com/newsroom/movers-study-2023. Tax payers in Maryland especially low income and retirees need tax relief. 2022's tax reduction for seniors was a step in the right direction but Maryland still is not a competitive state from a tax standpoint for retirees compared to most of its adjacent states or states such as Florida and South Carolina. In addition the qualifications for the lower taxes were not indexed to inflation. The 2023 United Van Lines survey of those immigrating or emigrating from Maryland indicated 22.2 percent of those leaving the state were retired and only 3.8 percent of people entering the state were retired. Losing retirees lowers Maryland's population and retiree spending in the state and reduces federal payments to the state based on population and lowers future state inheritance and estate tax revenue.

Maryland's tax base is declining as more upper middle and higher income earners are leaving the state. The United Van Line survey found that by margins of 7.3 percent and 3.6 percent upper middle and high income earners are on net leaving Maryland.   Maryland is not a large state geographically and needs to be cognizant of is tax competitiveness relative to its neighbors and it has fared significantly worse in recent years from a net emigration standpoint relative to most of its neighboring states. I believe further tax hikes will further shrink Maryland's tax base.

I firmly believe that Maryland's Blue Print For Education passed in 2021 needs to reduced significantly in cost, made fiscally responsible, with more oversight. The time line for implementation should be lengthened as well. If not, tax rates and fees for Marylanders will increase at an extremely fast rate over the next decade. In a wealthy state such as Maryland, students deserve good to very good schools and need to be strongly encouraged to take advantage of it. Personal effort and determination are major factors in one's success in any field of endeavor. However as it for virtually all spending beyond a certain point, diminishing returns exist where the benefits are significantly less than the costs with the opportunity costs rising in the forms of higher taxes and less funding availability for other projects. Numerous independent groups have called out the Maryland Blue Print for Education as being far too expensive, fiscally irresponsible, and lacking oversight. Anne Arundel County real estate taxes were raised 5 percent in 2023 and we all know the over whelming reason why.

Please show fiscal responsibility and do not raises the general tax burden and the fees for basic state services further on Marylanders. I believe that it will only increase the exodus of Marylanders from the state. I believe more Maryland voters are demanding more fiscal responsibility from its elected representative and that it will weigh more heavily on their voting decisions. I know it will be a major factor in my voting in coming elections and will encourage other voters to weigh it heavily as well in their voting.