MARCH 5, 2025

Pass Fair Tax Reform for a Healthy, Equitable Maryland Economy

Position Statement in Support of Senate Bill 859

Given before the Budget and Taxation Committee

No matter what we look like or where we come from, most Marylanders believe in caring for our families and leaving things better for the generations to come. However, the upside-down tax system we have today makes it harder for our communities to thrive. For decades, wealthy corporations have rigged the rules to avoid paying taxes, putting most of the responsibility for funding our schools, health care, roads and transit on working families and small businesses. Now, one-third of the largest corporations in the state pay zero income taxes in a typical year, and the wealthiest 1% of Marylanders pay a smaller share of their income in taxes than the rest of us. This system is as ineffective as it is unfair, falling billions short of the revenue needed in coming years to implement the Blueprint for Maryland's Future and support other bedrock public services. Lawmakers must choose: ask large corporations and wealthy individuals to pay their fair share, or abandon promises made to Maryland families. **For these reasons, the Maryland Center on Economic Policy supports Senate Bill 859.**

Due to data limitations, it is expected as of the time of writing that the Fiscal and Policy Note for Senate Bill 859 will omit revenue estimates for certain provisions of the bill. Based on additional analysis of available data, we estimate that **two major unscored provisions of the bill are likely to raise approximately $1 billion per year in combination.** This estimate should be considered highly approximate.

Most importantly: Any grand total revenue estimate for Senate Bill 859 that omits these provisions – even for legitimate reasons – should be considered a significant underestimate.

Approximate Revenue Estimate: Selected HB 1014 Provisions Excluded from Fiscal and Policy Note ($ millions)		
Worldwide combined reporting Additional revenue on top of WECR	$299	MDCEP estimate based on Institute on Taxation and Economic Policy (2025), with additional calculations by MDCEP
LLC Loophole	$744	HB 357 of 2021 Fiscal and Policy Note, adjusted for rate change
Total	$1,043	

Summary of the Legislation

Senate Bill 859 takes several steps to make Maryland's tax code fairer and more effective:

- **Closes corporate tax loopholes** that allow big businesses to artificially shift profits to domestic or offshore tax havens. Most states have already cracked down on domestic tax avoidance by requiring combined reporting, and the worldwide approach provides stronger protection. The bill also eliminates corporate "nowhere income" by adopting the throwback rule.

- **Closes the LLC loophole** that currently allows large businesses to avoid paying *any* corporate income tax by organizing as an LLC or other non-incorporated business form. Requiring the largest LLCs and other "pass-through" businesses to pay an 8.25% tax on profits exceeding $1 million would raise substantial revenue while continuing to exempt true small businesses.

- **Restoring the net operating loss cap**. Businesses are allowed to carry forward losses in one year to a future year. So, if they have a tough year but then are making significant profits the next year, they might still pay little or no taxes in a good year. The 2017 Trump tax bill increased the amount of losses businesses could carry forward. This federal change was automatically matched in Maryland law. This proposal would restore the pre-2017 cap of 50%.

- **Asks the wealthiest individuals to pay their fair share** by increasing income tax rates starting at $250,000 for individuals ($300,000 for married couples), creating a millionaires' bracket, and implementing income tax rate recapture policies modeled after laws in New York and Connecticut.

- **Tax investment income like income from work.** Income earned from wealth rather than work is subject to a special low federal income tax rate, the capital gains rate, providing lopsided benefits to higher-income Marylanders. Maryland can partially offset the federal government's special treatment by adding a 1% surtax on net investment income above $350,000.

- **Fixes the estate tax on multimillionaire heirs** by exempting the first $2 million in assets, double the exemption used until 2014.

- **Expands tax credits for working families**, including a $750 child tax credit for qualifying children up to age five and broader earned income tax credit eligibility for workers not claiming dependent children on their taxes.

Fair Business Taxes Are Part of a Thriving Economy

A well-designed revenue system is essential for maintaining Maryland's economic health throughout the ups and downs of our state's economy. An effective tax code supports the building blocks of a thriving community, such as health care, education, and transportation. Just as importantly, a fair tax code ensures that everyone contributes their share to maintain those building blocks – including families, local businesses, and large corporations. The public investments our taxes make possible are especially vital amid a weak economy, when every job created or protected can soften the blow to families and communities.

However, large, multistate corporations are often able to wield their economic and political power to artificially reduce their tax responsibilities in Maryland. Corporate tax loopholes make it harder for the state to invest in basic services and further tip the scales of our economy in favor of the wealthy and powerful few. This harms communities across Maryland as well as small, local businesses that cannot exploit similar loopholes. The greatest harms often fall on communities of color, women, people with disabilities, and other Marylanders who face economic roadblocks built by centuries of lopsided policy choices.

By enacting the reforms included in HB 1014 to close corporate tax loopholes, we can protect and improve the public services that keep Maryland communities going. Strong evidence makes clear that an effective corporate tax code enables investments that benefit families and businesses alike and can protect local economies during hard times. Contrary to misleading claims by antitax advocates, cleaning up Maryland's corporate tax code is the right choice for our economy today and in the decades to come.

- Closing corporate tax loopholes would raise significant revenue by preventing large, multistate corporations from artificially lowering their tax responsibilities. This can enable the state to strengthen investments in things like health care and education, or to minimize cuts during a downturn.
- State services provide an immediate boost to the economy by supporting decent jobs that enable families to afford necessities. Local businesses benefit from increased household consumption and in some cases by selling inputs to public services. Each step increases economic activity and can create more jobs.
- An effective corporate tax code supports our shared investments in the building blocks of long-term economic strength, such as health care, education, and transportation. A state with a healthy, well-educated workforce and effective transportation networks is in the best position to prosper for years to come.
- Businesses make investment and hiring decisions based on demand. If a company can meet consumer demand and generate a profit by acquiring a building, purchasing equipment, or hiring workers, it will do so – regardless of how the resulting profits are taxed. Conversely, a business will not expand if there is not enough market demand to make it profitable, regardless of tax policy.
- State taxes are a small part of most businesses' cost structures and do not drive location decisions. Companies decide where to locate based primarily on business fundamentals like access to skilled workers and reliable transportation. On average, states that ask corporations to contribute more in taxes have better-educated residents and other assets that businesses value.

- High-quality research shows that corporate income taxes are not an important determinant of the strength of state economies. In fact, many of the states with the most vibrant economies are among those that expect corporations to contribute the most.

Fixing Maryland's Upside Down Tax Code Will Support Thriving Communities

Senate Bill 859 would also make Maryland's revenue system more equitable. Today, our tax code is upside down, allowing the wealthiest 1 percent of households to pay a smaller share of their income in state and local taxes than the rest of us do.[i] Reforming our income tax would make significant progress toward turning our tax code right side up. Senate Bill 859 is expected to raise most new income tax revenue from the wealthiest 1 percent of households. Meanwhile, 1.3 million lower- and middle-income Marylanders (those with up to $80,000 in annual income) would pay less under Senate Bill 859 than they do today due to expansion of the Child Tax Credit and Earned Income Tax Credit.

This legislation would improve racial equity in our tax code because it asks more of households whose income comes primarily from wealth rather than work. The 1 percent of Maryland households with the highest incomes derive about half their income from built-up assets and only 40 percent from wages, salaries, and other forms of employee compensation.[ii] Meanwhile, the other 99 percent of households derive three-quarters of their income from a job and only 5 percent from built-up wealth. Centuries of discriminatory policies have concentrated nearly two-thirds of all household assets among the wealthiest 10 percent of white households, leaving little for everyone else—including the large majority of white households as well as nearly all households of color.[iii]

Strong evidence from credible research as well as from other states' experience tells us that asking the wealthiest individuals to contribute to the services we all rely on is consistent with a vibrant economy:

- **The bulk of empirical research finds little link between state tax policy and where people want to live**.[iv] This is consistent with common sense: For most of us, factors like good jobs, affordable housing, great schools, pleasant weather, and being close to relatives are far more important than tax rates.
- Careful research shows that wealthy individuals relocate less often than other families, and that taxes aren't an economically important driver of where they settle down.[v] This, too, is little surprise: Uprooting your life to reduce your tax responsibilities may not be an attractive option if you have invested time and money in a good job, a business, or a comfortable home, or if you are embedded in your community's civic life.
- An analysis by the Institute on Taxation and Economic Policy compared the economic performance of the nine states with the highest statutory income tax rates to the nine states that do not levy a personal income tax.[vi] This analysis found that from 2006 to 2016, the states with high statutory income tax rates saw faster per-capita growth than the no-income tax states in GDP, personal income, disposable personal income, personal consumption, and prime-age employment.
- The District of Columbia enacted similar tax reforms in 2021 and has subsequently saw the number of high-income residents increase to the highest level ever recorded.[vii]

As Marylanders consider the major investments we will need to strengthen the foundations of our economy in future years—from world-class schools to high-quality health care—we should look first to reforms that can raise significant revenue while making Maryland's tax code more equitable. Senate Bill 859 would represent a significant step in that direction.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on Senate Bill 859.

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[i] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa 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
Maryland-specific data available at https://itep.org/whopays/maryland/

[ii] MDCEP analysis of Tax Year 2016 Maryland Individual Statistics of Income, Maryland Comptroller's Office, resident tax filers. In this analysis, "wealthiest 1 percent" refers to tax filers with at least $500,000 in Maryland AGI. In tax year 2016, 25,200 filers had at least $500,000 in Maryland AGI, or 1.02 percent of the state's 2.47 million resident tax filers.

[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] Michael Mazerov, "State Taxes Have a Negligible Impact on Americans' Interstate Moves," Center on Budget and Policy Priorities, 2014, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-negligible-impact-on-americans-interstate-moves

[v] Cristobal Young, Charles Varner, Ithai Lurie, and Richard Prisinzano, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," *American Sociological Review 81*(3), 2016, https://web.stanford.edu/~cy10/public/Jun16ASRFeature.pdf
See also Cristobal Young, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich*, Stanford: Stanford University Press, 2018

[vi] Carl Davis and Nick Buffie, "Trickle-Down Dries Up: States without Personal Income Taxes Lag behind States with the Highest Tax Rates," Institute on Taxation and Economic Policy, 2017, https://itep.org/trickle-down-dries-up/

[vii] Nick Johnson, "Maryland's Tax Reform Likely Won't Cause Millionaire Migration," Institute on Taxation and Economic Policy, 2025, https://itep.org/marylands-tax-reform-likely-wont-cause-millionaire-migration/