MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Updating Residence Standards Will Make Maryland's Tax Code More Effective

Position Statement in Support of House Bill 183

Given before the House Ways and Means Committee

An effective revenue system is an essential tool to enable Maryland to invest in the foundations of our economy such as education, child care, and transportation. 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. House Bill 183 would update the standards the state uses to define residence in Maryland for tax purposes. As modified by the sponsor amendment, the bill would require individuals who reside in Maryland for at least three months of the year to apportion a share of their income to Maryland, preventing some wealthy individuals with multiple homes from avoiding paying their fair share toward the services that make Maryland a great place to live. **For these reasons the Maryland Center on Economic Policy supports House Bill 183**, including the sponsor amendment.

The Maryland Center on Economic Policy supports the sponsor amendment, which modifies the bill in two ways:

- Removes the change to §10–101 of the Tax–General Article modifying the definition of a Maryland resident for individual income tax purposes. Under the amendment, this section remains unchanged from current law.
- Adds a paragraph to §10–203 of the Tax–General Article requiring nonresidents who maintain a place of abode in Maryland for at least three but less than six months to apportion a share of their income to Maryland equal to the share of days in the year the nonresident was present in Maryland.

Strong evidence 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.[i] 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 also shows that wealthy individuals relocate less often than other families, and that taxes aren't an economically important driver of where they settle down.[ii] 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.

However, evidence also suggests that some wealthy individuals seek to artificially move income and wealth *on paper* to avoid taxation, without physically leaving a state:[iii]

> Moreover, there is evidence that a good portion of this supposed "migration" is actually fake. Infamously, tax authorities struggle to know where taxpayers really live, as it can be challenging to verify whether a beach house or pied-a-terre is really a primary residence, or vice-versa … These sorts of fraudulent "paper" forms of migration could potentially be prevented with stronger auditing and enforcement policies.

Because income taxes are the most effective ways states raise revenue from the wealthiest individuals, income tax avoidance strategies are most value (and most accessible) to these individuals.

House Bill 183 would protect against this artificial and unfair tax avoidance strategy by replacing Maryland's current rigid, binary definition of residency with a system to tax a portion of income of individuals who spend a significant part of the year in Maryland.

The Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 183 as modified by the sponsor amendment to require income apportionment for part-year residents**.**

Equity Impact Analysis: House Bill 275

Bill summary

Background

The bulk of empirical research finds little link between state tax policy and where people want to live. Careful research also shows that wealthy individuals relocate less often than other families, and that taxes are not an economically important driver of where they settle down. An analysis by the Institute on Taxation and Economic Policy found that the states with the highest statutory income tax rates performed better across a range of economic indicators than states with no personal income tax between 2006 and 2016.

However, evidence also suggests that some wealthy individuals seek to artificially move income and wealth *on paper* to avoid taxation, without physically leaving a state. Manipulating state residency standards is one method of doing so.

Equity Implications

House Bill 183 would bring significant equity benefits:

- Today, the wealthiest 1 percent of Maryland households pay a smaller share of their income in state and local taxes than any other income group.[iv] House Bill 183 would make our tax code more balanced by countering a method for high-income households to avoid paying income tax.
- Improving Maryland's tax code would generate revenue that could be invested in things like world-class schools, transportation infrastructure, and sufficient child care assistance. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 275 would likely **improve racial and economic equity** in Maryland.

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[i] Michael Mazerov, "State Taxes Have a Negligible Impact on Americans' Interstate Moves," Center on Budget and Policy Priorities, 2023, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves

[ii] 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

[iii] Brian Galle, David Gamage, and Darien Shanske, "Money Moves: Taxing the Wealthy at the State Level," forthcoming *California Law Review 112*, 2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4722043

[iv] "Maryland: Who Pays? 7th Edition," Institute on Taxation and Economic Policy, 2024, https://itep.org/whopays/maryland-who-pays-7th-edition/