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Testimony in Support of HB 1014
Fair Share for Maryland Act of 2025

The Fair Share for Maryland Act would raise much needed revenue to help pay for the essential services Marylanders depend on and will cut taxes for low- and middle-income families while making our tax code fairer.

Additional revenue is urgently needed to ensure Maryland can meet its commitment to funding the Blueprint for Maryland's Future and the Consolidated Transportation Program. In FY 2026, the state's budget deficit is projected to reach $3 billion, according to the revenue analysis released this year by DLS. Likewise, the Transportation Trust Fund is facing a budget deficit of over $1.3 billion.

This legislation would raise at least $1.6 billion annually for Maryland's general fund when fully phased in and will give tax breaks to working families by expanding the Child Tax Credit and Earned Income Tax Credit. The legislation closes corporate tax loopholes and creates new tax brackets for the wealthiest taxpayers in the state, ensuring the wealthiest 1% of Marylanders pay the same proportion of their income in taxes as low- and middle-income taxpayers currently do.

Marylanders strongly believe the state's tax system is unfair, with large majorities supporting proposals to close corporate tax loopholes and ensure that wealthy individuals pay their fair share, according to recent polling. The survey, conducted in October 2023, found that 64% of Marylanders voters believe the tax system is unfair and 75% said it was important for the state to make sure wealthy individuals pay their fair share of taxes. 79% support efforts to close loopholes that allow multi-state corporations to avoid paying taxes for profits generated in Maryland, including 63% who *strongly* support.

Expanding the Child Tax Credit

Maryland's Child Tax Credit (CTC) is currently very limited because of its current income limit of $15,000. The bill provides a tax cut to as many as 1.4 million low- and middle-income Marylanders, including 700,000 children, by expanding the CTC to families making up to $80,000 in taxable income. Under the bill, the credit is valued at $750 per child under age 6 and $500 per child ages 6 to 17; these credit amounts will adjust for inflation in the same way the federal credit does. This expanded CTC will be a lifeline for Maryland families in need of tax savings that can help pay for rent, utilities, medical bills, groceries and other living expenses.

Expanding the Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is widely seen as the nation's leading anti-poverty tool, lifting thousands of Maryland families out of poverty every year. This bill raises the income limit for individual taxpayers without qualifying children. Many taxpayers who fall into this category are minimum wage workers who are denied the credit because of Maryland's low income limit; anyone working 23 hours a week at minimum wage earns too much to qualify for the state credit. This change to the EITC will also adjust the income limit with inflation for this subset of EITC claimants in the same way the federal credit does.

Requiring Worldwide Combined Reporting

The bill implements worldwide combined reporting, removing an unfair advantage that large companies have over smaller businesses by closing a loophole that allows multinational corporations to shift their profits to low-tax jurisdictions to avoid paying state income tax. Corporations would be required to report the income and expenses of all related subsidiaries, regardless of where they are located, rather than reporting on a separate entity basis.

Many other states use combined reporting. Twenty-eight states, plus DC, have transitioned to requiring combined reporting, including many Republican-controlled states. Fourteen of those states, plus DC, look beyond water's edge by either allowing or requiring corporations to file returns that include at least some profits booked in foreign countries.[1] Six of those states, plus DC, mandate profits from certain tax haven countries be included in combined reports.[2]

Combined reporting is not an obstacle to economic growth. Seven of the current top 10 states for GDP growth are combined reporting states (Idaho, West Virginia, New Hampshire, Utah, Wisconsin, Texas, and Vermont).[3] Four of the top 5 states for Fortune 500 companies are combined reporting states (Texas, California, New York, and Illinois).[4]

Taxing "Nowhere Income"

The bill incorporates a "throwback" rule. When a Maryland corporation sells goods into states that do not have a nexus to tax those sales, the bill would assign the resulting untaxed "nowhere income" to Maryland for the purpose of calculating the corporation's taxes. In this way, profits are "thrown back" to Maryland, where the corporation is located.

Adopting the throwback rule would put small businesses in Maryland on a more level playing field with large multistate corporations that sell into other states. Nineteen other states, plus DC, have such a provision.

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[1] ITEP: Far From Radical: State Corporate Income Taxes Already Often Look Beyond the Water's Edge
[2] 75% of Fortune 500 companies operate in foreign tax havens according to an analysis of publicly reported SEC Form 10-K filings. https://itep.org/offshoreshellgames2017/
[3] https://www.bea.gov/data/gdp/gdp-state
[4] https://fortune.com/franchise-list-page/visualize-the-fortune-500-2023/

Reinstating the Millionaire's Income Tax and Implementing Tax Rate Recapture

The bill boosts the progressivity of Maryland's personal income tax by creating new tax brackets on upper incomes (over $500,000 and over $1 million). Maryland previously had a millionaire's tax from 2008 to 2010 during the last budget crisis.

Maryland has seen substantial growth in the number of millionaires in recent years. According to data from the Comptroller, the number of taxable returns with adjusted gross income exceeding $500,000 increased by over 13,600–a 45% increase–between 2020 and 2023.[5] Over that same span, the total net taxable income of this subset of Marylanders swelled from $36.3 billion to $51.2 billion.

Five other states, plus DC, have tax brackets that apply specifically to millionaires.[6] Notably, this bill's proposed 7% tax on millionaires is equivalent to or lower than an additional six other states' rates for non-millionaires; those states have tax rates of at least 7% on incomes as low as $58,000.[7]

Additionally, the bill prevents high-income taxpayers from benefiting from the lower rates levied on the first portion of their income. In a typical graduated income tax system, tax rates rise with earnings and those earning the highest income only pay the highest tax rate on the share of their earnings in the highest bracket. Under the bill, high-income earners pay the top rate on all of their income. Connecticut and New York both have similar tax rate recapture laws.

Reinstating a Lower Estate Tax Threshold

The estate tax applies only to the wealthiest individuals in Maryland and is one of the only ways the state taxes inherited wealth. The bill restores Maryland's estate tax exclusion amount to $2 million in assets, the same level it was in 2016. In the past, Maryland's threshold was even lower at $1 million. Of the 13 states with an estate tax, four states have thresholds lower than or comparable to $2 million.[8]

Taxing Passive Income More Like Wage Income

Passive income from capital gains is subject to a low federal tax rate that provides lopsided benefits to the wealthy. This bill partially offsets this special treatment by adding a 1% surtax on net investment income for taxpayers making over $350,000. As opposed to a capital gains surtax, a net investment income surtax captures not only capital gains but also dividends, royalties, income from commodities trades, etc – forms of passive income more likely to be accrued by large pass-through entities and wealthy individuals than would accrue under a capital gains surtax. Agricultural land and buildings would be exempt from the 1% tax.

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[5] Comptroller TY20 & TY23 Annual Income Tax Summary Reports.
[6] California, Connecticut, Massachusetts, New Jersey, New York, DC.
[7] Hawaii, Maine, Minnesota, Oregon, Washington, Wisconsin.
[8] Massachusetts, Oregon, Rhode Island, Washington.

Minnesota uses such a tax and two other states similarly tax passive income differently from wages–Massachusetts levies a 3.5% surtax on short-term capital gains and Washington taxes all capital gains at 7%.

Closing the LLC Loophole

Many large corporations in the U.S. have reorganized as LLCs, partnerships, and other types of pass-through entities (PTEs) in order to be exempt from federal and state entity-level taxes. The bill would close this loophole by requiring the wealthiest 2% of PTEs to pay the normal corporate tax rate. Seven other states, plus DC, do not have this loophole.[9]

Capping an Expensive Corporate Loss Deduction to Prevent Revenue Volatility

Several states in recent years have enacted caps on the deductibility of net operating losses (NOLs) to combat projected budget deficits.[10] NOLs are a tax provision that lets businesses take losses they incurred during a taxable year and carry them forward into future tax years, where they can be deducted from future profits to reduce an employer's overall tax liability.

The bill caps the NOL deduction at $500,000 per business per year. Because NOLs are carried forward and deducted from future profits, capping the amount of NOLs that can be deducted in any given year does not cause impacted companies to lose their NOL deductions. Rather, it only delays them, spreading them out over a longer period. This change to the timing of NOL deductibility prevents revenue volatility in the state budget by limiting the impact of extraordinary losses in a given year. In Illinois, which recently capped NOL deductions at $500,000, an estimated 90% of corporate income taxpayers carrying NOLs are not impacted by the cap.[11]

Funding Transportation with a Fee on Highly Profitable Multistate Businesses

Maryland is facing $1.3 billion in cuts to the Consolidated Transportation Program, putting many critical projects on the chopping block even before accounting for the construction of the Baltimore Red Line and new Chesapeake Bay Bridge. To address this deficit, the bill levies a 2.5% fee on the most profitable businesses in our state and deposits the revenue in the Transportation Trust Fund. The fee applies only to business profits over $10 million annually.

This dedicated funding source is modeled after New Jersey's Corporate Transit Fee, which was proposed by Governor Phil Murphy and enacted by the New Jersey legislature last year. The fee fully covered NJ Transit's annual $800 million deficit. According to Governor Murphy, it affects an estimated 600 business taxpayers (the top 0.5%).[12] The tax largely falls on multistate companies; data from the New Jersey Office of Revenue and Economic Analysis shows that 81% of corporations affected by the tax are based out-of-state.

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[9] California, DC, Illinois, Kentucky, Massachusetts, New Hampshire, Tennessee, and Texas all impose tax on PTEs.
[10] Illinois caps NOL deductions at $500,000; California suspended the use of NOL deductions altogether; Connecticut caps NOL deductions at 50%; and Minnesota conforms to the pre-TCJA federal NOL deduction cap of 70%.
[11] Illinois Governor J.B. Prtizker's FY2025 Budget Book, page 65.
[12] New Jersey Governor Phil Murphy's FY2025 Budget Book, page 60.