



Maryland Chamber of Commerce

Legislative Position

HB 44

OPPOSE

Ways &
Means
Committee
11/3/07

HB 44

Individual Income Tax Rates

Bill Summary: This bill would increase the top individual state income tax rate from the current 4.75% to 6%.

Chamber Position: The Maryland Chamber of Commerce opposes HB 44.

Noncompetitive: Maryland's personal income tax rate is already in the 20% highest rates in the nation (see chart attached). The proposed changes would make Maryland's total combined state plus local individual income tax rate 9.2% in some localities. These rates would make Maryland significantly noncompetitive compared to our neighboring states (Virginia 5.75%; North Carolina 8%; Pennsylvania 3.07%; Delaware 5.95%), and third highest in the country behind only California's 9.3% and Vermont's 9.5%.

Because no point in Maryland is more than 40 miles to the border of a neighboring state, we are concerned that Maryland may lose good taxpaying residents to other states as people chose to move rather than pay these tax rates. Also, it is individuals who make business decisions. We are concerned that residents may take their businesses with them as they leave Maryland. The results would be not only a failure to realize the intended increased revenues from this bill, but also the loss of current tax revenues (income tax, sales tax, property tax) Maryland receives from these individuals and businesses.

Maryland is predominantly a small business state – almost $\frac{3}{4}$ of the State's registered business entities employ fewer than 10 people. And thousands of those small businesses are organized as flow-through entities such as S-Corporations and Limited Liability Companies. The business income tax of those flow-through entities is paid on the personal income tax returns of the business's owners. That means that the business owners are already paying Maryland's higher individual tax of 7.95% in most counties, rather than the State's 7% corporate income tax. Raising the business owner's state tax rate by 26%, from the 4.75% to the proposed 6%, will negatively impact these Maryland businesses. A recent study by Ernest & Young estimated that this legislation would cost Maryland small businesses \$95 million in additional income taxes annually.

We urge you to give HB 44 an unfavorable report.

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Individual income tax top rates 2007

AK	NONE
FL	NONE
SD	NONE
TX	NONE
WA	NONE
WY	NONE
ILL	3% OF FED AGI, NOT TI
IND	3.4
PA	3.07 of gross income from comp, net profits, gains, trusts, div, int, etc)
MI	3.9
CO	4.63
ARIZ	4.79
AL	5%
CT	5
MS	5
NH	5 on int/div only
MA	5.3% on interest, dividends, others; 12% on short term capital gain
NM	5.3
ND	5.54
VA	5.75
DE	5.95
GA	6
KY	6
LA	6
MO	6
TN	6% of div and interest
OK	6.25
NJ	6.37 at 499,999; 8.97 at 500,000
KS	6.45
WV	6.5
OH	6.555
WI	6.75
NE	6.84
NYS	6.85
MT	6.9
UT	6.98
ARK	7
SC	7
ID	7.8
MN	7.85
MD	7.95 (4.75 state PLUS county up to 3.2)
NC	8
RI	25% OF FED TAX LIABILITY, or 8% flat, or graduated up to 9.9
HI	8.25
ME	8.5
DC	8.7
IA	8.98
OR	9
MD	9.2 (after HB1420 raises state rate to 6%)
CA	9.3
VT	9.5