



Maryland Chamber of Commerce

Legislative Position

Personal
Income Tax
Rates

**-OPPOSE-
B&T/W&M/
APP Comms.
Nov. 1, 2007**

Tax Reform Act of 2007 (SB 2 and HB 2)

Restructuring of Personal Income Tax Rates

Summary: This provision would increase the top state tax rate from 4.75% to 6.5%, add a 6% bracket, and adjust other rates and brackets, effective for taxable years beginning after December 31, 2007.

Chamber Position: The Maryland Chamber of Commerce opposes the tax rate changes as they impact Maryland's small businesses and the very type of worker we want to have as Maryland residents.

- This change would make Maryland's total combined state plus local personal income tax rate 9.7% in some counties. This would make Maryland significantly noncompetitive compared to our neighboring states:
Virginia: 5.75% Pennsylvania: 3.07% Delaware: 5.95%
- Maryland's current combined tax rate of 7.95 is already high, the 10th highest in the nation. (See attached list.)
- This change would make Maryland's total tax rate the 3rd highest in the entire nation, behind only California and Rhode Island.
- Tens of thousands of small businesses in Maryland pay the personal income tax, because the business is in the form of a "flow-through entity" such as a partnership, limited liability company, S-corporation, or proprietorship. They don't file a corporate income tax return. The tax on the business income is paid on the personal income tax returns of the business owners. This 37% increase in their tax rate will significantly impact the economics of doing business, and will likely impair their ability to continue to support their current number of employees, and perhaps even threaten the business's existence (or at least its existence in Maryland).
- It is not correct to assume that "the IRS will pay a third of the increase because state income taxes are deductible." Most couples at the \$200,000 income level, and certainly those at the \$500,000 level, are paying the Alternative Minimum Tax and therefore will get no additional federal deduction for the additional state income tax.
- The "Economic and Fiscal Impact Analysis of Maryland Tax Policy Options" report (September 13, 2007, prepared by the Quantitative Economics and Statistics Group of Ernst & Young LLP) calculated the impacts of a similar proposal, HB1420 of 2007, and showed that about one third of the total increased taxes would be paid by businesses, while only 5% of the tax reductions (from the lower rate bracket changes) would apply to businesses.

-Over-

- Because no point in Maryland is more than 40 miles to the border of a neighboring state, we fear that Maryland may lose its good taxpaying residents and small businesses to other states. Or, businesses may choose not to expand here and individuals may choose not to move here. The results would be not only the failure to realize the intended increased revenues from the bill, but also the loss of the current revenues Maryland is receiving from those individuals and businesses, and the loss of jobs currently provided by those small businesses.
- Statistics from the Comptroller's Office show that each year 4% of the individuals in Maryland pay 33% of the personal income tax revenues received by Maryland. It won't take too many of that 4% to move from Maryland to result in a significant drain on the state's tax revenues. (See attached page 17 from Department of Legislative Services briefing to Senate Budget and Taxation Committee, September 26, 2007.)
- We currently hear stories of businesses having difficulty attracting workers to move to Maryland. We are concerned that the proposed tax change will aggravate that trend. Workers who earn incomes at the levels that would be taxed at the bill's 6% and 6.5% rates are the highly skilled workers that Maryland wants and needs.
- It is also critical to remember that these workers could chose to work in Maryland but live in one of our close neighboring states where the tax burdens are less. This results in the phenomenon that the "job" is in Maryland's economy, but none of the employee's tax revenue goes to the Maryland treasury – "reciprocity" rules with most of our neighboring states dictate that the personal income tax from his wages goes to his resident state; he will do most of his purchasing at home and therefore pay most of his sales tax in his home state; and his property tax would go to his residence state where his house is.
- To have their tax revenue for the Maryland treasury, we need these individuals to be Maryland residents. Competitive tax structures in Maryland are an important aspect of getting them to be Maryland residents.
- The proposed tax rates are uncompetitive.

The Maryland Chamber of Commerce respectfully urges that this provision be given an unfavorable report.

Contact: Karen T. Syrylo, CPA, ksyrylo@mdchamber.org

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) CURRENT |
| NC | 8 |
| HI | 8.25 |
| ME | 8.5 |
| DC | 8.7 |
| IA | 8.98 |
| OR | 9 |
| VT | 9.5 |
| MD | 9.7 (6.5 state PLUS county up to 3.2) PROPOSED |
| RI | 25% OF FED TAX LIABILITY, or 8% flat, or graduated up to 9.9 |
| CA | 9.3, but 10.3 on income over \$1,000,000 |