



Maryland Chamber of Commerce

Legislative Position

SB 2 /HB 2

HAC, W&M,
B&T
Committees

11/1/07

Tax Reform Act

State Property Tax Rate Reduction - Oppose

Summary: Section 10 of the Tax Reform Act would require the state real property tax rate to be reduced by three cents by fiscal year 2012 if voters approve a constitutional amendment authorizing video lottery terminals in November 2008.

Chamber Position: The Maryland Chamber of Commerce opposes the proposed state real property tax rate reduction because it will require at least \$224 million in other new taxes to be raised in order to fund the property tax rate cut.

The State of Maryland has imposed a property tax to pay debt service on state bonds since 1842. The state property tax rate varied during the 20th century from a high of 36.75 cents in 1918 to a low of 5.6 cents per \$100 of assessed value in 1954. In 1972 a state constitutional amendment was adopted which allowed the Governor to supplement property taxes with general funds in meeting state debt service needs. Such subsidies were provided from fiscal year 1974 until fiscal year 2004.

In fiscal year 2008 the state budget again provided \$29 million in state general funds to subsidize the state property tax rate. The amount of general funds required to maintain the current 11.2 cent state tax rate is estimated to grow to \$40 million in fiscal year 2009 and would balloon to over \$224 million in fiscal year 2012 for a three cent rate reduction.

While everyone enjoys a property tax rate cut (including businesses), it is neither justified nor fiscally responsible. All available data (Census Bureau, Tax Foundation, DLS) confirm that real property taxes in Maryland are moderate when compared to other states. Conversely, all similar data confirm that Maryland ranks among the highest states in the country in individual income tax burden and marginal individual income tax rates. Why should Maryland further raise individual income tax rates (where we are high) in order to subsidize real property tax rates (where we are moderate)?

At a time when the Governor and General Assembly are attempting to close the over \$1.5 billion state structural deficit, we do not need to widen the gap with an unjustified tax reduction.

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Exhibit 2
Maryland State and Local Tax Revenues
Comparison to Selected States
2003-2004 Tax Revenues as a Percentage of Personal Income

	<u>Property Tax</u>	<u>Personal Income Tax</u>	<u>Corporate Income Tax</u>	<u>Sales & Selective Taxes⁽¹⁾</u>	<u>License Fees</u>	<u>Other Taxes⁽²⁾</u>	<u>All Taxes</u>
District of Columbia							
Percent	3.6%	3.7%	0.6%	4.1%	0.6%	1.4%	14.0%
Rank	17	4	5	18	13	3	1
New Jersey							
Percent	5.0%	2.1%	0.5%	2.7%	0.3%	0.3%	10.9%
Rank	3	34	8	43	38	28	11
Maryland							
Percent	2.7%	3.8%	0.3%	2.5%	0.3%	0.7%	10.1%
Rank	35	3	31	45	43	12	26
Virginia							
Percent	2.9%	2.7%	0.2%	2.7%	0.3%	0.5%	9.2%
Rank	32	15	42	44	40	18	46
Delaware							
Percent	1.5%	2.8%	0.7%	1.3%	3.0%	0.7%	10.1%
Rank	50	14	3	50		10	29
Pennsylvania							
Percent	3.0%	2.5%	0.4%	3.1%	0.6%	0.7%	10.4%
Rank	26	19	10	41	11	11	20
North Carolina							
Percent	2.4%	3.0%	0.3%	3.6%	0.4%	0.2%	10.0%
Rank	41	9	18	28	28	36	32
West Virginia							
Percent	2.1%	2.3%	0.4%	4.6%	0.4%	0.9%	10.6%
Rank	42	26	12	12	30	7	15
U.S. Average	3.3%	2.2%	0.4%	3.7%	0.4%	0.4%	10.4%

¹Includes the general sales tax along with selective taxes such as excise taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premium taxes, public utility gross receipts taxes, and others

²Includes inheritance/estate and gift taxes, documentary and stock transfer taxes, severance taxes, and other taxes.

Note: For the rankings, 1 indicates the highest. Rankings are out of 51 except for the personal income tax (out of 44) and the corporate income tax (out of 47)

Source: 2004 Census of Government, U.S. Bureau of the Census (July 2006)

EDITORIAL

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The wrong tax cut

AS APPEALING AS A REDUCTION in property taxes may sound, Gov. Martin O'Malley's proposal to shave 3 cents off the state property tax rate over the next three years isn't smart policy. And yet there he was yesterday in Howard County touting the tax cut as a boost for seniors and others living on a fixed income. That may be true — to a modest degree — but what the governor's \$2 billion deficit-reduction proposal giveth, it also taketh away. This is one tax cut he ought not be bragging about. Here's why:

The state property tax rate is a measly 11.2 cents for each \$100 in assessed value. The money is supposed to be used to finance the state's general obligation bonds, but it falls about \$29 million short. Throw in a 3-cent tax cut and it's eventually another \$177 million or so in the red. The difference has to be made up with other taxes — including far more regressive ones.

Nobody likes paying property taxes, but on a

statewide basis, Maryland's are pretty reasonable. According to the Tax Foundation, the per capita property tax payment in Maryland is actually \$131 below the national average. That's chiefly because local governments in Maryland collect more from income taxes than most peers.

Nor will anyone get rich from the proposed tax cut. Mr. O'Malley's calculations show that the average family with a \$50,000 income would get a \$45 break when the full 3-cent reduction is in place. That's a night at the movies — with a small popcorn split four ways.

The real problem with Maryland's property tax is at the local level, not the state. Baltimore residents pay far too much compared with surrounding counties. Take the \$177 million and turn it into local aid, and the city could drop its property tax rate of \$2.28 by at least one-fourth. That could help spur jobs and prosperity that would ultimately make Baltimore less dependent on state aid. That's a far worthier goal than a specious statewide tax cut.