Center on Budget and Policy Priorities

820 First Street, NE
Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

CBPP STATEMENT

For Immediate Release
Wednesday, November 7, 2007

Contact:
Shannon Spillane, 202-408-1080, spillane@cbpp.org

STATEMENT BY NICHOLAS JOHNSON, DIRECTOR OF THE STATE FISCAL PROJECT, CENTER ON BUDGET AND POLICY PRIORITIES, ON THE MARYLAND SENATE BUDGET AND TAXATION COMMITTEE'S TAX BILL

The tax bill passed by the Maryland Senate Budget and Taxation Committee is a disappointing step backwards from Governor O'Malley's tax reform proposal. It bows to pressure from powerful corporate interests to abandon the closure of wasteful corporate tax loopholes. And it shifts the burden of raising additional revenue onto those who can least afford it.

The committee failed to enact the single most important corporate tax reform in the governor's plan, a provision known as "combined reporting." This provision, already enacted in 21 other states, is the only strategy that can assure that corporate loopholes used by large multi-state corporations are closed and remain closed in the future. It is the only way to redress the disparities between the taxes that fall on smaller, Maryland-only businesses — which cannot use the loopholes — and these multi-state corporations.

The committee also passed a far weaker improvement in the state's income tax than the governor has proposed. The governor's proposal, taken together with expected increases in sales, cigarette, and other regressive taxes, would protect most low-income Marylanders and many middle-income families from net tax increases, while raising income taxes substantially on the 2.3 percent of highest-income families in the state. The committee's bill would do far less than the governor's proposal to protect low- and middle-income families. And it would ask far less of high-income families — even though the state's high-income families have benefited far more than other families from the last five years of economic growth.

The committee's bill does make one important improvement over the governor's proposal — a change in the structure of the state's Earned Income Tax Credit (EITC) to cover low-income individuals and families that do not have a child living with them. This change conforms Maryland law to the federal EITC and cost-effectively targets a small amount of tax relief. The Committee bill as a whole, however, fails to appropriately balance the need for additional revenue with the need to assure that the additional burden does not fall on low- and middle-income families that can ill afford it.

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