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NEWS RELEASE

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GOVERNOR'S PLAN WOULD REDUCE INCOME TAXES FOR VAST MAJORITY OF MARYLAND RESIDENTS

More than three-fourths of Maryland taxpayers would pay less in state income taxes under Governor O'Malley's income-tax restructuring plan, and only the highest-income 2 percent of taxpayers would pay more, a Center on Budget and Policy Priorities analyst told state lawmakers Thursday.

The General Assembly is considering this and other revenue proposals from the governor in a special session to address the state's budget shortfall.

Those few Marylanders facing a tax increase under the income-tax proposal are those who have enjoyed the biggest gains from the last five years of economic growth, explained Nicholas Johnson, director of the Center's State Fiscal Project, in testimony before the House Ways and Means Committee and the Senate Budget and Taxation Committee. The testimony is available online at http://www.cbpp.org/11-1-07sfp-testimony.htm.

"From 2000 to 2005, average incomes rose more than three times as fast as inflation for the top 2 percent of Marylanders but didn't even keep up with inflation for the other 98 percent of residents," said Johnson. "So as Maryland looks for the revenue needed to maintain public services like education, transportation, and health care, it's appropriate to minimize tax increases on low-and moderate-income households while asking the people with the largest and fastest-growing incomes to pay more."

Other tax measures proposed by the governor, such as a sales tax hike, could hit low-income families hard. But in separate testimony, Jason Levitis, policy analyst and counsel to the State Fiscal Project, said the governor's package would help many low-income families meet the costs of such tax increases, because it would expand the state's Earned Income Tax Credit and enact a new sales tax credit. Levitis said the state should do more to increase participation in low-income credits and make more Marylanders eligible for the EITC.

Under current law, most Maryland taxpayers pay state income tax at the same 4.75 percent rate. The governor's proposal would make the tax progressive by reducing taxes for middle-income Marylanders and adding new top brackets for families with taxable incomes above $200,000 and $500,000. The typical tax cut for those receiving it would be roughly $70 to $170 per household, depending on family structure and income.

Johnson discounted warnings that the proposed change would cause high-income Marylanders to flee the state. He cited a 2000 study of the Washington, DC metropolitan area that found income-taxes rates had no effect on population (or job) growth. He also noted that after New Jersey raised taxes on taxpayers with incomes over $500,000 three years ago, the number of high-income taxpayers increased substantially.