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New Study Outlines Tax Solutions for Maryland

As Maryland political leaders struggle to deal with the state's revenue shortfall, Maryland lawmakers have an opportunity to reverse the regressive trend in Maryland's tax system and restore a more equitable balance between individuals and corporations.

A new analysis of Maryland's taxes by Citizens for Tax Justice shows that Maryland current tax system is quite regressive, taking considerably higher shares of the incomes of low- and middle-income Marylanders than the wealthiest Marylanders are required to pay.

Specifically:

- The effective state and local tax rate on the wealthiest one percent of Maryland families—with average incomes of \$1.1 million—is 7.6 percent before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is just 5.1 percent.
- The average tax rate on families in the middle of the income distribution—those earning between \$33,000 and \$51,000—is 9.5 percent. After the federal offset, the rate is 8.8 percent, more than half again greater than what the richest pay.
- The tax rate on the poorest Maryland families—those earning less than \$19,000—is 9.4 percent, with essentially no federal offset. That's also more than half again as much as the effective rate on the wealthiest Marylanders.

"Maryland taxpayers should not have to tolerate a tax system that fails to provide the revenues for necessary programs and allows the wealthiest Marylanders to avoid paying their fair share of the cost of public services," said Robert S. McIntyre, director of Citizens for Tax Justice. "It's time for Maryland lawmakers to bring the state's tax code in line with the needs of the people and basic principles of fairness."

The study outlines a variety of specific tax options Maryland legislators should consider, including making the income tax more progressive and closing corporate loopholes that allow big, profitable companies to artificially shift their profits out of Maryland. The report also shows how increasing the Maryland sales tax rate would make the state's tax system even more regressive.

"To avoid making Maryland's tax system even more unfair, Maryland should reject increases in regressive sales taxes," McIntyre said. "Instead, Maryland should look to the personal income tax as a way to both raise needed revenues and move toward a fairer tax system. An added advantage of income taxes is that they are deductible by itemizers in computing their federal income taxes, thus creating an offset that substantially reduces the effective burden on Maryland's economy and its taxpayers."

"Lawmakers should also note that the corporate share of Maryland's overall taxes has been declining for a number of years," McIntyre added. "This is part of a trend in states and at the federal level that needs to be halted."

The full text of the 11-page report is attached.