

Executive Summary

As widely reported, the state faces a projected \$1.5 billion deficit for FY 2009 and similar sized deficits for years to come. This projected deficit amounts to about 10% of the total state general fund budget of \$15 billion for FY2008.

This crisis has been years in the making. Beginning in the 1990s the state increased funding for education (especially Thornton) and health care (especially Medicaid) but simultaneously allowed its tax base to erode.

By dipping into rainy day funds and dedicated funds for transportation and open space preservation, the state has over the past five years merely maintained the inadequate levels of spending that have led to a rising poverty rate, increasing numbers of medically uninsured, increasing tuition at public universities, and a Bay in poor and languishing health. Meanwhile, the state's long-term problem of inadequate revenue remains unaddressed, hence the structural deficit.

The erosion of Maryland's tax base stems mostly from the following factors: a lowering in 1998 of the top tax bracket from 5% to 4.75%; expiration of a 6% tax rate on high incomes; and proliferating loopholes by which the corporate tax base has shrunk relative to other funding streams. By the start of the current decade, this revenue hemorrhage left Maryland 48th out of the 50 states in total government revenue as a proportion of the state's income.

Lawmakers can restructure the state's revenue system in a way that not only closes the structural deficit, but also generates new revenue to meet Maryland's many unmet needs, makes our regressive tax structure a bit less unfair, and irons out our state's boom-bust revenue cycle that encumbers responsible budgeting.

Maryland can afford to raise new revenue because we are a wealthy yet low-tax and small-government state. Moreover, the wealthiest Marylanders have reaped a windfall in federal tax cuts from President George W. Bush and can easily afford to give part of that back to Maryland for public investment. Finally, according to the latest figures from the Comptroller's office, 50% of the largest corporations in our state pay no income tax whatsoever, a situation we believe stems from proliferating tax loopholes.

This briefing book documents these facts and makes the case that any revenue package enacted should:

1. **Raise more than \$1.5 billion** because this amount would merely maintain current, inadequate levels of public investment.
2. **Close loopholes in the state's corporate tax system** to ensure that big, multi-state, profitable corporations pay their fair share of taxes. **Estimated revenue = hundreds of millions of dollars.**
3. **Abolish outdated tax breaks** that favor specific industries and special interests without strengthening the state's economy or advancing social policy goals. **Est. revenue = at least \$227 million.**
4. Add a personal **income tax surcharge for individuals who report gross adjusted incomes of \$500,000 or more. Est. revenue = \$410 million.**
5. Make the personal income tax system more progressive in various other ways. **For example, a new 6% bracket on joint filers who earn \$225,000 per year would bring in \$350 million.**
6. In a tailored manner, extend the current 5% sales tax to business services, information services, professional services and financial services used primarily by high-income individuals and businesses – areas currently excluded from the existing sales tax system. **Estimated revenue = approx \$1.275 billion.**

Some of these revenue sources partially overlap and therefore partially cancel each other out. But if most are enacted the state would collect many hundreds of millions of new dollars each year to invest in Maryland's future.

In the 2006 election, Maryland's voters expressed their support for a vibrant public sector and fairer tax policies to pay for it. Fresh polling data, included in this book, show that Maryland voters continue to support these goals and believe the current deficit should be closed in a fair, revenue-positive manner.