



Maryland Chamber of Commerce

Legislative Position

**HB 10
OPPOSE**

**Approp. /
Ways &
Means
Committee
2/9/10**

HB 10

Teacher and Employee Pension Sustainability and Solvency Trust Fund

Bill Summary: This bill would extend indefinitely the 6.25% state income tax bracket on individuals and impose a system of mandatory unitary combined reporting for corporate income taxes effective next year. The proceeds of these tax levies would be dedicated to fund state employee and teacher pensions.

Chamber Position: The Maryland Chamber of Commerce opposes this bill. While we commend the sponsor for focusing on the serious problem of state employee and teacher pension funding, the proposed tax levies in this bill are ill-timed and ill-advised.

We oppose the bill for the following reasons:

- **“Millionaires’ Tax” is Uncompetitive** – The Tax Foundation reports that Maryland has the 6th highest effective marginal state and local income tax rate in the country. According to the Foundation, Maryland’s top effective tax rate of 9.23% is far above all of our neighboring states (D.C. 8.5%; DE 7.11%; WV 6.5%; VA 5.75%; PA 4.32%). The tax has failed to make its estimated yield as the number of individuals filing with \$1 million of income dropped by 30% for tax year 2008. This tax falls disproportionately on small business owners, who need to reinvest funds into their companies to create jobs. This tax should be allowed to lapse, as promised, so that Maryland can better compete for and retain jobs in this state.
- **Premature Action on Combined Reporting** – The Governor and General Assembly created the Maryland Business Tax Reform Commission during the 2007 special session and charged that group with the responsibility of evaluating the merits of combined reporting and other changes to Maryland’s business tax structure. The Commission has worked diligently for the past year and will provide recommendations in December of 2010. We know from preliminary data that combined reporting would cause massive shifts in tax liability between businesses, with 2,418 businesses paying \$393 million *more* in taxes and 1,906 businesses paying \$223 million *less* in taxes. The fact that many businesses pay less in taxes demonstrates that the tax change is not a “loophole closer.” The Commission should be allowed to evaluate another year of tax data and report back this December without having this issue prejudged by the General Assembly.

(over)

- **Inappropriate Funding Source for Pensions** – Corporate income taxes and a high earner individual income tax bracket are inherently unstable sources of revenues that are inappropriate for funding the large and growing costs of state employee and teacher pensions. The FY 11 state budget proposes \$1.3 billion (all funds) in spending for state employee and teacher pensions, a growth of over 15% from FY 10. The pension systems also have poor investment performance, an aging workforce, and an unfunded liability of over \$15 billion - all of which will drive future budget demands. The revenues generated by this bill are not sufficient to address the financial needs of the pension systems as currently designed.
- **Pension Costs Must be Contained** - Employers should not be asked to fund a level of pension benefits for public employees that they cannot afford to provide to their own employees. Most private employers long ago ended defined benefit pension plans, instituting defined contribution plans. The state should likewise transition away from the unsustainable cost of defined benefit pensions for state employees. State contributions for teacher pensions should also be capped, with a cost share implemented with counties or the local boards of education that set teacher salaries.

For these reasons, we urge an unfavorable report for this bill.

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