



Press Release

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MARYLAND'S COMPETITIVENESS WOULD FALL SHARPLY, TAX BURDEN RISE UNDER O'MALLEY TAX PLAN *Business climate falls to 43rd best, tax burden rises to 11th highest*

WASHINGTON, DC—At a press conference in the shadow of the State Capitol dome in Annapolis today, the Tax Foundation, joined by the Maryland Public Policy Institute, unveiled a new study revealing that Maryland's competitiveness will fall sharply if the tax changes proposed by Governor Martin O'Malley are enacted.

"Lost in the rush to increase taxes is the crushing impact these tax increases will have on Maryland's competitiveness," said study author Curtis Dubay. "Maryland's increased tax burden and less competitive business tax climate will severely lessen the state's ability to attract new or expanding businesses and their jobs."

The Tax Foundation has two measures to rank and compare tax burdens and competitiveness among the states. The first is the State Business Tax Climate Index. The Index ranks states based on the taxes that matter most to businesses and business investment: corporate tax, individual income tax, sales tax, unemployment tax and property tax. The states are scored on these taxes, and the scores are weighted based on the relative importance or impact of the tax to a business.

In the 2008 Index, Maryland ranked 24th best in business competitiveness. Under the O'Malley plan, Maryland would fall to 43rd best. Maryland's income tax would be the 49th worst system, trailing only California.

The other measure is the state and local tax burden. The burdens are effective tax rates calculated by totaling state-local taxes paid by taxpayers in each state, then dividing by their income. The burdens also reflect the economic incidence of taxes that are commonly shifted to out-of-state taxpayers.

Maryland's 2007 burden was 10.8%, making it the 23rd worst burden in the country. If the full O'Malley plan were implemented, the burden would rise to 11.5%, making it the 11th highest burden in the country.

Maryland's regional competitiveness would also fall sharply under the O'Malley plan. The Tax Foundation considered Maryland's neighboring states: Delaware, Virginia, Pennsylvania, West Virginia and New Jersey. In those comparisons, Maryland has the 5th (of 6) worst business climate index ranking, the 2nd highest tax burden (just behind New Jersey), and the highest income rate.

The new study by the Tax Foundation on the O'Malley plan, *Fiscal Fact* No. 109, is available online at: <http://www.taxfoundation.org/publications/show/22701.html>

Also at the event, Maryland Public Policy Institute President Christopher B. Summers highlighted that, despite projections of steady economic and revenue growth, Maryland legislators continue to grapple with a projected long-term structural deficit. Ongoing general fund revenues are expected to grow 25 percent between fiscal years (FY) 2006 and 2011 while ongoing spending will grow 41 percent over the same period.

Despite an estimated \$1.3 billion surplus in FY 2006, annual deficits loom in the near future and will grow rapidly, approaching 10 percent of general fund revenue by FY 2011. The cumulative gap between revenues and spending will exceed \$5 billion over the next five years. With current revenue collections exceeding projections, lawmakers may perceive an opportunity for the state to “grow” out of its structural imbalance by increasing taxes. Given current levels of taxation, Maryland total personal income would have to grow more than 9 percent per year initially to close the structural gap—nearly double the current forecast.

“Annapolis leaders seem to believe that they have little need to constrain their spending,” said Summers. “Maryland lawmakers cannot tax Maryland into prosperity.”

Lawmakers should take a closer look at spending priorities in Maryland—especially regressive spending. Maryland lawmakers love to talk about state spending as “investing in Maryland’s future,” but most of the spending is symbolic spending. Future public spending should pass a cost/benefit analysis test. Lawmakers would be wise to reform Medicaid, education spending and testing, sell surplus real estate, reduce, and re-evaluate or abolish spending agreements on perennial money-losing ventures.

The nonpartisan, nonprofit Tax Foundation has monitored tax policy at the federal, state and local levels since 1937. Best known for its annual calculation of Tax Freedom Day®, the Tax Foundation is a nonprofit, nonpartisan 501(C) (3) organization.

The Maryland Public Policy Institute is a 501 (C) (3) nonpartisan public policy research and education organization that focuses on Maryland public policy issues.

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