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Maryland General Assembly Should Adopt Hogan's Tax Plan

by

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As the 444th session of the Maryland General Assembly convened in Annapolis on Jan. 12, Maryland Gov. Larry Hogan (R) proposed a package of targeted tax cuts estimated to provide about $4.6 billion in tax relief. He touted the proposal as "the largest tax cut package in state history."

Given Maryland's massive projected budget surplus – about equal to the size of Hogan's tax relief package – the legislature should adopt meaningful tax cuts. Absent such action, it's likely that Maryland's business climate will continue to worsen, and that Maryland may experience out-migration from the state, especially by retirees.

Hogan's proposal targets the bulk of the tax cuts – about $4 billion phased in over time – to eliminating taxes on retirement income. The remainder is aimed at enhancing Maryland's refundable earned income tax credit and providing additional tax incentives for manufacturers to relocate to Maryland or expand existing employment opportunities in the state.

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As a matter of sound tax policy, it might be preferable for the General Assembly to enact an across-the-board income tax cut. After all, according to a March 2021 study in WalletHub, Maryland has the third-highest personal income tax burden of all the states. A study by the nonprofit Tax Foundation, also published in March 2021, found that in 2019, among all the states, Maryland had the sixth highest effective state and local tax burden.

Though a proposal embodying broader base income tax reductions, ideally, might be more desirable, Hogan's package nonetheless has much to commend it. There is a case to be made for granting retirees tax relief. And given the common depiction of Maryland as a state that, increasingly, is unfriendly to business, tax relief for manufacturers makes sense too.

Start with retirement – and this eye-opener. In Bankrate's July 2021 study "The Best and Worst States for Retirement," Maryland ranked dead last. This ranking was driven in substantial part by Bankrate's 40 percent weighting for the "affordability" factor in which Maryland ranked 47th. "Affordability" in turn was impacted heavily by the state's tax burden. Admittedly, the other factors employed by Bankrate – weather, culture, wellness and crime – are susceptible to a certain degree of subjectivity. But it's not prudent to dismiss out of hand a study by a respected organization like Bankrate that ranks Maryland as the worst state for retirement.

This is especially true when the latest Census Bureau data show Maryland lost population between 2020 and 2021 because of out-migration (that is, after accounting for births and deaths.) And the latest annual United Van Lines National Movers Survey confirmed the out-migration, with 28 percent of those leaving Maryland citing "retirement" as a reason.

Hogan's proposed tax incentives for manufacturers should help address Maryland's problematic business climate, even though, again ideally, across-the-board corporate tax reductions might be preferable. The Tax Foundation's 2022 State Business Climate Index, released in December, placed Maryland 46th out of the 50 states. This ranking is based on an assessment of how well states structure their tax systems, so the extent to which Hogan's tax incentives for manufacturers will affect the ranking is unclear. But it's likely that, if adopted, they will improve not only the perception of Maryland's business climate but also the reality.

The point of reciting all these statistics is not to facilitate construction of a fancy spreadsheet. Rather it's to suggest Maryland has problems that can be addressed if the legislature would abandon its default "tax and spend" mind-set. With the General Assembly's Spending Affordability Committee now projecting a historic budget surplus of $4.1 billion at the close of fiscal 2022, and with "structural surpluses" projected through 2027, now is the time to provide Marylanders with meaningful tax relief, rather than using these surpluses to embark on further spending sprees.

Governors and lawmakers from all over the country are proposing substantial tax reductions in 2022 in light of their own projected budget surpluses. These proposals are coming not only from Republicans in so-called red states like Nebraska, Iowa and Kansas, but also from Democratic governors Gavin Newsom and Kathy Hochul in blue California and New York.

At the end of the day, it's not a matter of simply following the lead of politicians of all stripes across the country. It's doing what's right for Marylanders. The General Assembly should enact into law substantial tax relief along the lines proposed by Hogan.

* Randolph J. May is President of the Free State Foundation, an independent nonprofit think tank in Rockville, Maryland. The views expressed in this *Perspectives* do not necessarily reflect the views of others on the staff of the Free State Foundation or those affiliated with it. *Maryland General Assembly Should Adopt Hogan's Tax Plan* was published in the *Washington Post* on January 25, 2022.