



## **Where Have All of Maryland’s Millionaires Gone? Nowhere – They’re Probably Just Not Millionaires Anymore**

In recent weeks, a great deal of attention has been focused on the apparent change in the number of millionaires paying taxes in Maryland. In a May 13 letter to Governor Martin O’Malley, Senate President Mike Miller, and House Speaker Michael Busch, Comptroller Peter Franchot asserted that “... returns with taxable income over \$1 million filed by April 30 ... have fallen by about a third while tax liability on these returns has dropped somewhat more.”<sup>1</sup> Media outlets such as the *Wall Street Journal* and the *Washington Examiner* have subsequently seized upon that assertion, in effect arguing that the changes in tax law enacted in Maryland in 2007 and in 2008 – changes without which the state’s fiscal situation would be much worse – are driving affluent families and individuals out of state.

A more thorough examination of preliminary tax return data for 2007 and 2008 suggests that, while Maryland millionaires may have moved, their most likely destination was a different income group. As the table at right shows, the preliminary number of returns with taxable

### Maryland’s Millionaires Moving - to a Lower Income Group

Range of Taxable Income	Preliminary Number of Returns		Preliminary Change	
	2007	2008	Number	Percent
Over \$1,000,000	2,178	1,887	(291)	-13.4%
\$500,000 to \$999,999	4,816	5,206	390	8.1%
\$250,000 to \$499,999	17,729	20,824	3,095	17.5%
\$150,000 to \$249,999	50,675	63,005	12,330	24.3%
Under \$150,000	2,041,699	2,140,409	98,710	4.8%
TOTAL	2,117,097	2,231,331	114,234	5.4%

Source: Maryland Office of the Comptroller

income of just under \$1 million – which were also subject to income tax increases as a result of recent reforms – has risen noticeably over the past year.<sup>2</sup> While the preliminary number of returns with taxable income over \$1 million fell by 291 – or 13 percent – the number of returns with taxable income ranging from \$500,000 to \$999,999 rose by 390 – or around 8 percent. The \$250,000 to \$499,999 band of taxable income grew even more, expanding by 3,095 returns or 17 percent.

Stated slightly differently, as a result of legislation enacted in 2007 and in 2008, income tax rates for affluent Marylanders were higher this past year, not just for residents with taxable incomes over \$1 million, but for individuals with taxable incomes above \$150,000 and for families with incomes over \$200,000. Consequently, if it is the case that wealthier taxpayers respond to changes in income tax liability by changing their state of residence, one would expect to see that response not just for taxpayers with incomes above \$1 million, but, to some degree, among all affected taxpayers. The Comptroller’s preliminary data suggest that this is

not the case. With the exception of “millionaires”, the number of returns in the affected ranges of taxable income appears to have grown between 2007 and 2008.

Given recent economic events – and, in particular, the widely-anticipated decline in income from capital gains, which are received almost exclusively by the very wealthiest residents of each state – a far more likely explanation for the alleged disappearance of Maryland’s millionaires is that, for 2008 at least, they are no longer millionaires. Instead, their incomes may now fall in lower ranges of the distribution, thus potentially accounting for some portion of the increase in the number of returns in those ranges.

**Preliminary Data Don't Tell the Whole Story -  
Especially for Wealthier Taxpayers**

Range of Taxable Income	2007 Returns		Change	
	Preliminary	Final	Number	Percent
Over \$1,000,000	2,178	6,909	4,731	217.2%
\$500,000 to \$999,999	4,816	11,243	6,427	133.5%
\$250,000 to \$499,999	17,729	33,225	15,496	87.4%
\$150,000 to \$249,999	50,675	78,310	27,635	54.5%
Under \$150,000	2,041,699	2,537,510	495,811	24.3%
<b>TOTAL</b>	<b>2,117,097</b>	<b>2,667,197</b>	<b>550,100</b>	<b>26.0%</b>

Source: Maryland Office of the Comptroller

Of course, attempting to make definitive statements about changes in the number of taxpayers in certain income ranges at this stage of the tax collection process is folly. As Comptroller Franchot himself acknowledged in his letter, “tax year 2008 results are worse than anticipated, but the

implications of that shortfall won’t be fully understood until the extension returns, which are typically higher-dollar returns, have been processed.” The table above certainly lends support to the notion that preliminary tax return data – that is, data on returns filed prior to the October deadline for filing returns on extension – offers, at best, an incomplete picture of trends in income levels and tax liabilities. The difference between preliminary and final data for upper-income taxpayers is especially marked. Consequently, policymakers in Maryland – including Comptroller Franchot – as well as interested observers in other states and in the press would do well to avoid drawing conclusions from such data and to refrain from trying to apply ill-informed lessons to other tax debates.

**May 29, 2009**

<sup>1</sup> Letter to the Governor, President, and Speaker, May 13, 2009. Downloaded from [http://www.marylandtaxes.com/publications/fiscalrpts/generalFund/09\\_Apr.pdf](http://www.marylandtaxes.com/publications/fiscalrpts/generalFund/09_Apr.pdf)

<sup>2</sup> The data presented here are Maryland residents only. Preliminary 2008 data are for returns processed through May 18, 2009. Preliminary 2007 data are through April 30, 2008 and final 2007 are through November 1, 2008.