

Maryland Taxes Hit Poor & Middle Class Harder than the Wealthy

Low- and middle-income families in Maryland pay larger shares of their income in state and local taxes than do the richest Maryland families, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “When it comes to paying for services, Maryland’s tax system is not quite fair.”

Maryland’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all Maryland taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Maryland families—with average incomes of \$1.1 million—is 7.6% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is just 5.1%.
- The average tax rate on families in the middle of the income distribution—those earning between \$33,000 and \$51,000—is 9.5%. After the federal offset, the rate is 8.8%, more than half again greater than the effective rate the richest pay.
- The tax rate on the poorest Maryland families—those earning less than \$19,000—is still high. At 9.4% it is also over half again as much as the effective rate on the wealthiest.

“Maryland’s income tax does not offset the regressivity of its sales and excise taxes, giving the state a regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Maryland.”

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Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Maryland taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens rose on the lowest-income families, but fell slightly for other income groups.
- The state income tax became more progressive, but the benefits to low-income taxpayers were outweighed by regressive consumption tax hikes.

“What benefits the state gave to the poor in the form of an earned-income tax credit, it more than took away through regressive hikes in excise taxes,” said McIntyre. “As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers.”

Two pages of tables detailing the Maryland findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

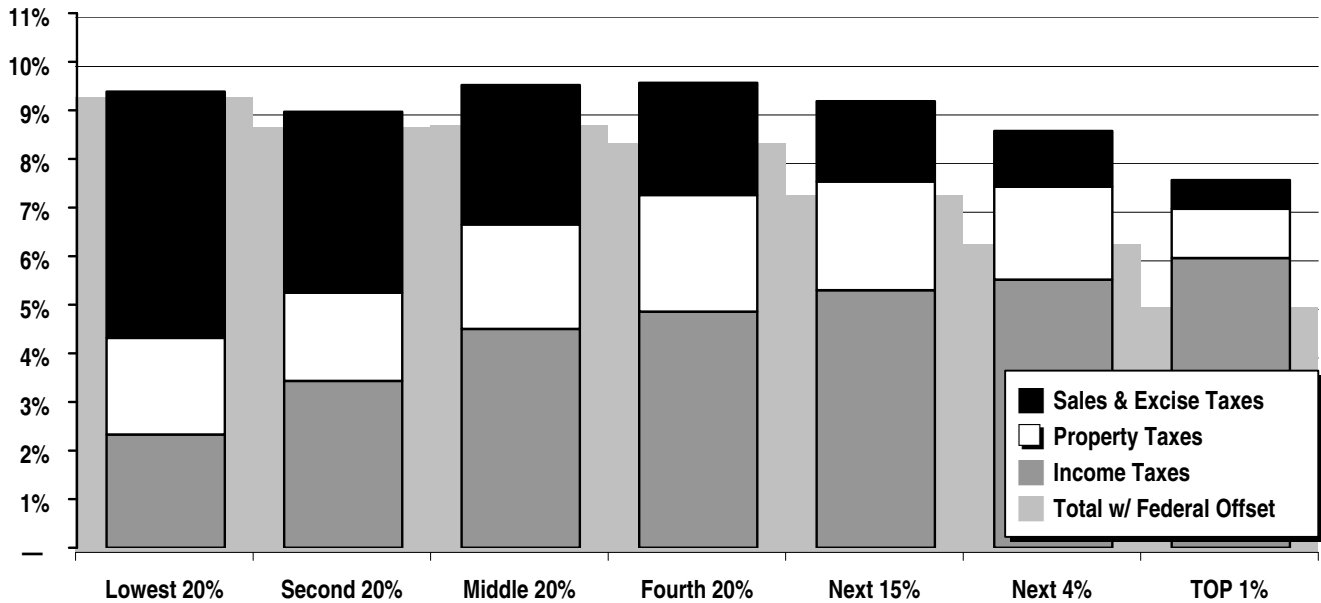
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Maryland

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$33,000	\$33,000 – \$51,000	\$51,000 – \$84,000	\$84,000 – \$160,000	\$160,000 – \$301,000	\$301,000 or more
Average Income in Group	\$10,900	\$25,400	\$41,400	\$66,400	\$111,300	\$211,000	\$1,106,000
Sales & Excise Taxes	5.1%	3.7%	2.9%	2.3%	1.7%	1.2%	0.6%
General Sales—Individuals	2.0%	1.6%	1.3%	1.1%	0.9%	0.6%	0.3%
Other Sales & Excise—Ind.	1.6%	1.0%	0.7%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	1.5%	1.1%	0.8%	0.6%	0.5%	0.3%	0.2%
Property Taxes	2.0%	1.8%	2.1%	2.4%	2.2%	1.9%	1.0%
Property Taxes on Families	2.0%	1.8%	2.1%	2.3%	2.1%	1.8%	0.7%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.3%
Income Taxes	2.3%	3.4%	4.5%	4.9%	5.3%	5.5%	6.0%
Personal Income Tax	2.3%	3.4%	4.5%	4.8%	5.3%	5.5%	5.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
TOTAL TAXES	9.4%	9.0%	9.5%	9.6%	9.2%	8.6%	7.6%
Federal Deduction Offset	-0.0%	-0.2%	-0.7%	-1.2%	-1.8%	-2.2%	-2.5%
TOTAL AFTER OFFSET	9.4%	8.8%	8.8%	8.4%	7.3%	6.3%	5.1%

Note: Table shows 2002 tax law at 2000 income levels.

Maryland Tax Trends

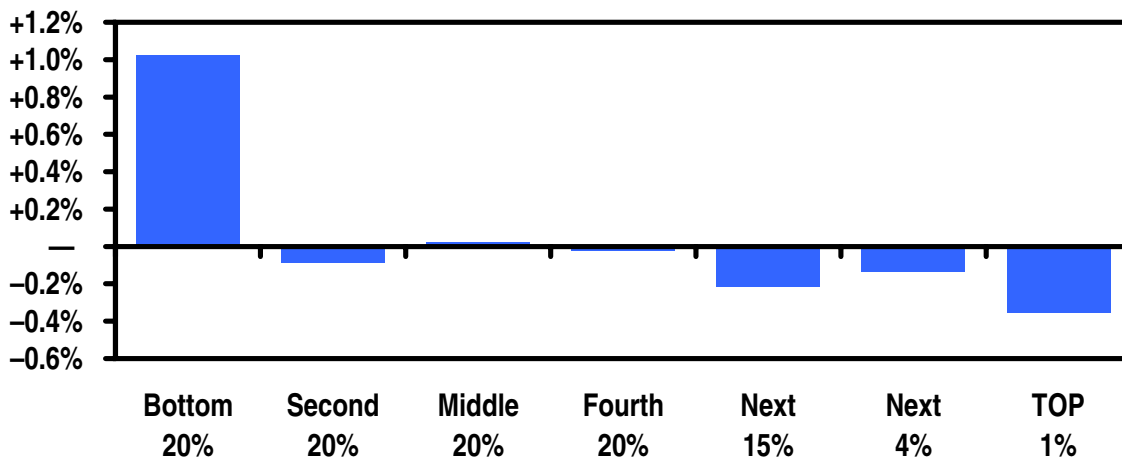
Progressive Features

- ✓ Partially refundable EITC
- ✓ Low income credits
- ✓ Groceries exempt from sales tax
- ✓ Low reliance on sales tax

Regressive Features

- ✗ Virtually flat rate income tax
- ✗ Exemptions and deductions not indexed

Changes in Taxes as Shares of Income, 1989 – 2002

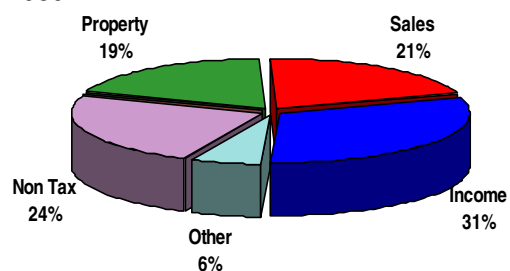


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+1.0%	+0.5%	+0.3%	+0.2%	+0.1%	+0.1%	+0.0%
Property	+0.4%	+0.2%	+0.3%	+0.2%	-0.3%	-0.4%	-0.2%
Income	-0.4%	-0.7%	-0.2%	-0.2%	-0.0%	+0.2%	+0.6%
Federal Offset	-0.0%	-0.1%	-0.3%	-0.2%	-0.0%	-0.0%	-0.8%
Overall Change	+1.0%	-0.1%	+0.0%	-0.0%	-0.2%	-0.1%	-0.4%

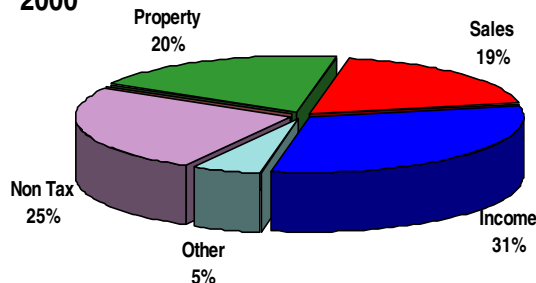
Progressive income tax changes were countered by regressive hikes in excise taxes. New credits, including a refundable EITC, a poverty credit and a child care credit, an increase in the personal exemption, the elimination of the 40% exclusion of capital gains, and a lowering of the top rate (paid by 78% of Marylanders) meant progressive income tax cuts for all but the highest earners. However, hikes in excise taxes completely offset these positive income tax changes for most.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census