Elements of the Fair Share for Maryland Plan

- **Close corporate tax loopholes:** Our tax system puts small, Maryland-based businesses at a disadvantage compared to their large competitors by maintaining loopholes that allow profitable multi-state corporations to avoid state taxes. Most states, including West Virginia and New Jersey, have already closed these loopholes. We can level the playing field for small businesses by adopting combined reporting and the throwback rule. Maryland could further address corporate tax avoidance by adopting worldwide combined reporting, which limits the use of foreign shell companies to avoid state taxes. These changes would generate an estimated $576 million in revenue.

- **Close the LLC loophole:** A growing number of large businesses operate as LLCs, partnerships, or S-corporations to become exempt from federal and state corporate income taxes. Maryland can end this special treatment by taxing the largest businesses with these structures. Exempting each company’s first $1 million in profits would ensure that only about 2% of such companies pay the tax. This reform would further protect our state’s small businesses by continuing to exempt sole proprietorships and would generate an estimated $745 million in revenue.

- **Reform state income taxes:** The most effective way to address unfairness in our tax system is through fixes to the personal income tax. The Fair Share for Maryland Plan adds a 7% tax on millionaires’ income and gradually increases rates from the current top bracket to the highest marginal rate for those earning income of $1 million or more per year. These reforms would generate an estimated $419 million in revenue.

- **Tax capital gains like income from work:** Income earned from wealth rather than work is subject to a special low federal income tax rate, the capital gains rate, providing lopsided benefits to higher-income Marylanders. Maryland can partially offset the federal government’s special treatment by adding a 1% surtax on capital gains, which would generate an estimated $157 million in revenue.

- **Expand Working Family Tax Credits:** Maryland can continue to build on the success of the 2023 Family Prosperity Act by expanding our modest Child Tax Credit so that it reaches more low- and moderate-income families. The Child Tax Credit expansion in this plan would provide a fully refundable $750 per child credit to parents with children under the age of 5 and a $500 per child credit for older children. Households with income up to $45,000 for single filers and $65,000 for joint filers would receive the full credit, and it would gradually phase out from there to avoid a “cliff” effect. This legislation will also modestly increase the income eligibility for the Earned Income Tax Credit for workers not claiming dependent children on their taxes, such as young adults just getting started in the workforce and parents who are separated. These groups are largely left out of the EITC today. These provisions would require an additional investment of $406 million.

- **Crack down on tax fraud:** The Comptroller’s Office currently has only a handful of auditors with the expertise to audit complex returns from wealthy individuals and corporations. This makes it easier for some to under-report their income to evade taxes. Maryland could significantly increase revenue by increasing the number of auditors. The IRS estimates that it loses nearly $400 billion per year to under-reporting. If Maryland had the same underpayment rate, that would equate to $3 billion per year in unpaid taxes.