

Impact on Montgomery County Of Gov. O'Malley's Proposed Reform of Maryland's Income Tax Code

Some members of the Montgomery County delegation to the General Assembly claim that Gov. O'Malley's proposed reform of the state's antiquated and regressive income tax code unfairly burdens Montgomery County.

This assertion is false – unless you equate the interests of the top 7% of tax filers with the interests of the county as a whole. This is clear from the analysis below, prepared recently by the Center on Budget and Policy Priorities:

- A new 6% bracket on \$225K households/\$150K single filers only affects 54,283 filers out of the County's total of 448,617 filers. That's a mere 12.1% (source: Comptroller's report of 2005). In addition, almost all single filers with incomes under \$200,000, and almost all married couples with incomes under \$250,000, will be protected from the tax increase because they have enough exemptions and deductions to avoid either of the new top brackets. This decreases the share of those who pay more in taxes from 12.1% down to at most 7%. It's hard to see how the top 7% of tax filers can be called "middle class".
- A surcharge on those who earn \$500K or more affects only 7,537 filers—a tiny 1.68% of all county taxpayers. (Source: Comptroller's report of 2005)
- Federal AMT. But maybe MoCo's wealthiest residents are groaning under burdensome federal AMT? Not true. Only about 8% of MoCo residents who filed federal income tax returns had any AMT liability in 2004 (the latest year for which IRS data is available). The reason is that Congress keeps passing one-year "patches" that protect most taxpayers from the AMT. There is every likelihood that even if Congress doesn't pass a permanent fix to the AMT, it will keep passing patches. So this is a non-issue for 92% of MoCo residents. (source: CBPP).
- The wealthiest MoCo residents have never had it so good. On average, MoCo residents have seen their pre-tax incomes rise since 2001. Moreover, even after taking the AMT into account, average after-tax incomes have risen even faster due to the Bush tax cuts. From 2001 to 2004 (the latest year for which we have IRS data) MoCo residents' average adjusted gross income rose at an average annual rate of 1.4 percent (after inflation). After federal income taxes, income rose at an average annual rate of 1.9 percent. CBPP looked specifically at the five highest-income zip codes in Montgomery County, which represent about 10 percent of the county's population. (Two zip codes in Bethesda, one in Potomac, and two less-populous areas near Sandy Spring.) In those high-income areas, the trends are even more striking. Average income (pre-tax, after inflation) rose at an annual rate of 4.8 percent. After-tax income rose at an average rate of 5.3 percent. In other words, even after taking into account the AMT, MoCo residents' incomes have been rising; incomes have been rising particularly fast in high-income areas of MoCo; and federal tax policy, far from undermining those gains, has accelerated the increases in income, particularly in higher-income areas.
- Other benefits for MoCo. Other parts of the Governor's overall package benefit MoCo disproportionately, including property tax reduction, inclusion of Thornton GCEI, and not shifting pension costs to counties (which would have hit the wealthiest counties the hardest).
- Fairer taxes poll well not only in the DC burbs (and, by extension, almost certainly in MoCo); but even among the wealthy themselves. Check out the fresh polling data— both summary memo and PowerPoint— at www.AllianceForTaxFairness.org
- Would millionaires go to the trouble of selling their house, pulling kids out of school, and moving to another state to save a tiny percentage of their income in taxes? Of course not.
- Summary: Asking all wealthy Marylanders – including those in MoCo—to give back a small portion of the tax cuts they have gotten from President George W. Bush so Maryland can invest in its future is not only good policy—it's good politics.