

GOVERNMENT

Progressive Maryland: Tax study discounts state spending

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ANNAPOLIS — A study by business groups that projected job losses to accompany increases in state taxation should have included more information about the economic effect of state spending, according to the advocacy group **Progressive Maryland**.

Sean Dobson, executive director of the organization, on Tuesday released a critique of a study that **Ernst & Young LLP** conducted for groups including the **Maryland Chamber of Commerce**, the **Greater Baltimore Committee**, and the **Greater Washington Board of Trade**.

The study found that a combination of tax plans that includes a rise in the state sales tax, an income tax hike for wealthier earners and a corporate income tax increase, could cost thousands of jobs by 2012. It also calculated the share of different taxes that businesses would pay.

Dobson said the study was misleading because it did not account for jobs that could be created by public spending supported by taxes. He said the effect would not be as severe because public spending on things like transportation and education can create jobs.

Sponsors and authors of the study said it compares different tax options that may be on the table for Maryland, and can be a useful tool for lawmakers when they are choosing which ones to put in place.

Karen Srylyo, a CPA and tax consultant to the chamber, said the study is serving its intended purpose. The chamber recognizes

that some new taxes are likely, she said, but it helps to know which ones are the best options.

"Let's just look at which taxes would do the least amount of harm to the economy," she said.

The study found that a 1 percentage point increase in the corporate income tax would have the highest cost in terms of the number of jobs lost per \$1 million of tax revenue, at 17.5. A corporate tax hike also would cause a larger decrease in higher-paying jobs than a boost in the sales tax rate. Chamber officials have said they prefer a mixture of spending cuts and the authorization of slot machines to balance the budget.

Dobson said the study's methodology was "flawed."

"They assume that everything you taxed ... is just sucked out of the private economy and goes into a black hole," Dobson said.

Robert Cline, national director of state and local tax policy economics for Ernst & Young, said it is difficult to know how state spending will relate to new taxation. The report notes that the study does not simulate the spending of tax money beyond what would balance the state budget, which Gov. Martin O'Malley's office projects is facing a \$1.7 billion deficit for next year.

There are many ways to raise money, he said, and the study is intended to show the difference between the various options that have been discussed.

"What we are doing is comparing alternative options for tax changes," Cline said. "We were not looking at overall budgetary impacts."

