

# Lobbyists square off on tax plans

Business and public interests are pleading their case;  
tax analysis and O'Malley's plans expected soon

BY DOUGLAS TALLMAN  
STAFF WRITER

The struggle to plug Maryland's \$1.5 billion budget gap has pitted public policy advocates who are fighting to preserve or expand state programs against business lobbyists who are arguing against major tax increases.

Changing the sales, income or corporate taxes means someone pays, and the lobbyists are pushing that it not be their clients.

Gov. Martin O'Malley has been mum about specifics on how he will solve the projected deficit — Maryland budgets by law must be balanced — but he has signaled it could involve expanding and increasing the sales tax, closing corporate tax loopholes, legalizing slot machine gambling and changing the income tax structure.

"We don't want to see the sales tax rate go up," said Thomas S. Saquella, president of the Maryland Retailers Association.

"I'm not really focused on any potential increase in the sales tax per se, but it's the expansion into goods and services and activities that weren't previously covered," said Bruce C. Bereano, who represents a number of business clients.

What's a lawmaker to do?

Next week, the accounting firm Ernst and Young will release a study that weighs how various tax proposals will affect the state's economy. Three business groups

financed the study: the Maryland Chamber of Commerce, the

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Greater Baltimore Committee and the Greater Washington Board of Trade.

"We understand that taxes will be a part of the solution. What we want is that it is less harmful to job growth and retention in the state," said William R. Burns, the chamber's director of communications.

O'Malley spokesman Rick Abbruzzese said Thursday the governor could unveil his own budget proposals by mid-October. O'Malley previously said he and legislative leaders would have to agree on a plan by Sept. 30 to have a special session before the beginning of the 2008 General Assembly.

Some of the lobbyists aren't so sure O'Malley (D) can pull it off.

"There's not the same opportunity for time and airing and discussion and dialoguing of proposals that you would have in a regular session," Bereano said. "I'm not saying it's not doable, but it's a much greater challenge."

"It takes a while to sell this kind of stuff," said J. William Pitcher, a lobbyist whose clients include the Mid Atlantic Petroleum Distributors Association.

Legislative leaders, he said, "seem to be really concerned that they're not getting much direction from the governor's

office. ... They've really been hesitant to say what they favor until they see something from the governor."

The petroleum distributors association is concerned about proposals to raise the gasoline tax and the tobacco tax. Cigarette sales represent a large percentage of a service station's retail business, Pitcher said.

On Bereano's client list is the Maryland Association of Tobacco and Candy Distributors, a group that would be hit if the General Assembly agrees to doubling the \$1-a-pack cigarette tax proposed by activist Vincent DeMarco's Maryland Health Care Initiative and others.

"On the tobacco tax, I'm really frustrated and disturbed there's this continuous attack on people that use tobacco and smoke," Bereano said. "All these Vinnie DeMarco crazies. They're anti-tobacco and that is their agenda and they feel, foolishly I believe, if you raise the price, you're going to stop people from smoking."

Bereano and Pitcher said a higher tax would drive smokers to buy cheaper smokes in neighboring states or on the Internet.

Furniture stores, large appliances and jewelry stores would be hit by increasing the state sales tax from 5 cents on the dollar to 6 cents on the dollar, Saquella said.

In his meetings with lawmakers, Saquella said, they've told him that raising the sales tax might not be the best solution, but it is the easiest.

And an increase could hurt the state in another way. "What you have now that you didn't have the last time you raise the sales tax is online sales," Saquella said.

So his organization is proposing its own path to balancing the budget with \$750 million from legalizing slot machines and casinos, \$400 million from rescinding the 1997 tax cut, \$250 million from a new upper-income tax bracket and \$200 million from expanding sales tax into services. The retailers plan also includes

\$100 million in O'Malley's budget cuts and \$300 million in more cuts from the legislature.

The total comes to \$2 billion. And the chamber is weighing in on corporate loopholes.

"I wouldn't characterize them as corporate loopholes," said Ronald W. Wineholt, a chamber vice president. "The General Assembly has adopted a tax structure, and it needs to be competitive with other states. You don't want to drive jobs out of the state."

Counties have been arguing against cutting state aid to the local jurisdictions. Wineholt said it represents a third of the state budget.

"You can't put a third of the budget off the table," he said.

And as sides struggle over tax policy, other advocates are struggling for greater state spending, threatening to enlarge the \$1.5 billion deficit.

Health care advocates, for example, want to use the cigarette tax hike to expand Medicaid for poor and uninsured Marylanders.

Likewise, State schools Superintendent Nancy S. Grasmick is concerned that not having full funding for the \$1.3 billion Thornton education formula or the geographic cost of education index would have "tremendous implications" for Prince George's and Montgomery counties and Baltimore city.

"That concerns me," Grasmick said Wednesday to Gazette editors and reporters. "Local funding has not kept pace with the state percentage of additional funding, so I'm very worried about that ... effort remaining very flat, and if it diminished at the state level, what are the implications?"

Staff Writer Marcus Moore  
contributed to this report.