

GOVERNMENT

# Tax hike for wealthy?

*O'Malley plan would raise income tax rate to 6.5% for upper income brackets*

BY ANDY ROSEN

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By raising income tax rates for Maryland's wealthier taxpayers, the state can reduce rates for the other 95 percent of taxpayers and still raise an additional \$163 million, Gov. O'Malley said Wednesday.

Opponents called O'Malley's plan an overall tax increase and argued that the increased rates, which would top out at 6.5 percent — up from a 4.75 percent ceiling — would be the highest in the nation when combined with local income taxes.

Individuals earning less than \$185,000 a year and typical families earning less than \$250,000 would have their income taxes reduced, O'Malley said at a news conference at a home in Rodgers Forge. Those savings and the \$163 million in new revenue would come from increased income taxes on wealthier earners.

Business leaders also argued that many firms are set up in such a way that they are subject to personal income tax, and that this move — coupled with a 1 percentage point increase in the corporate income tax — could put the state at a competitive disadvantage.

O'Malley made the announcement as he began to roll out his proposed plan to close a looming budget deficit that his office now estimates at \$1.7 billion. Also Tuesday, O'Malley

made his strongest statements yet in favor of a special session to approve his tax package so the state could begin collecting new revenue at the beginning of 2008 rather than in July.

"I'm looking forward to joining the General Assembly in a special session that focuses on getting our fiscal house in order and reconciling our budget challenges so we can get back to the business of making progress for the people of our state," O'Malley said.

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He said some committee meetings are being planned, and his staff is formalizing plans presented Tuesday to legislative leaders.

Advocates on either side of O'Malley's income tax proposal agree that the plan would make the income tax system more progressive, but they differ on whether that is a good thing.

Maryland residents are taxed at 2 percent on their first \$1,000 of annual income, 3 percent on their next \$1,000, 4 percent on the next \$1,000, and 4.75 percent on anything more than that.

The proposed system, for single filers, would have the same criteria for the 2 percent and 3 percent brackets. Then it would tax the next \$13,000 at 4 percent, the next \$135,000 at 4.75 percent, the next \$350,000 at 6 percent, and 6.5 percent above that. The thresholds would be higher for married filers.

According to figures from O'Malley's office, married couples with two chil-



dren making between \$75,000 and \$50,000 would see the largest decrease in taxes, at \$176. A single person making \$750,000 would see the largest increase at nearly \$8,000.

Curtis Dubay, economist with the Washington, D.C.-based **Tax Foundation**, a nonpartisan group that advocates for transparent, stable, neutral tax codes that promote growth, said O'Malley's proposal would make the state's tax structure one of the most progressive in the nation.

Sean Dobson executive director of the advocacy organization **Progressive**

**Maryland**, said O'Malley's plan "makes Maryland's regressive, unfair income tax code more progressive."

Karen Syrylo, a state tax consultant to the **Maryland Chamber of Commerce**, said businesses that are sole proprietorships, S corporations and partnerships, could

fall under the income tax code. The chamber, along with the **Greater Baltimore Committee**, the **Maryland Association of CPAs**, the **Maryland Bankers Association** and several other groups, will release a study Thursday of tax policy options under consideration by state leaders.

"It does show that a significant portion of the [proposed] income tax is going to be paid by businesses," Syrylo said. She said combined state and local income taxes could amount to the highest in the nation.

Phyllis Burlage, owner of **Burlage Associates PA**, a public accounting firm in Millersville, said many businesses could wind up paying around 8 percent in state

income taxes, either as corporations or individuals.

House Minority Leader Anthony O'Donnell, R-Calvert and St. Mary's, said the solution to the budget deficit is to slow spending.

"To me, that is a tax increase," he said, pointing to the overall increase in income tax payments. "And to sell it as some sort of tax cut, one would have to suspend their sense of credibility."

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House Minority Leader*

