

Tech tax out, millionaires tax in as legislative session wraps up

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ANNAPOLIS — Lawmakers repealed a \$200 million tax on computer services that Montgomery County legislators said would hurt technology companies, replacing it with a new tax on the wealthy and closing the gap on a \$31.2 billion state budget as the 2008 General Assembly came to a close Monday.

"Not only have we restored fiscal responsibility to our state, but we've also been able to make very solid progress on

education, on the environment, on coming up with a better, more secure energy future for our state," Gov. Martin O'Malley (D) said at a bill-signing ceremony on Tuesday in the State House.

Among legislation aimed at Maryland families was a bill that requires employers to allow people to use paid leave to care for a sick parent, spouse or child.

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single election
to finish
Wynn's term**
■ Page A-24

CONT.

SESSION

Lawmakers also passed bills designed to combat the increasing number of foreclosures while strengthening rules governing the mortgage industry.

The package — emergency legislation that took effect as soon as O'Malley signed it late last week — makes some predatory lending practices criminal acts, prevents prepayment penalties and extends the foreclosure process from 15 days to 150 days.

The General Assembly also extended the validity period of learner's permits for young drivers from one year to two years.

The extension was part of legislation that repealed an exemption that allows 15-year-olds to drive without getting a learner's permit if teens are taking lessons from qualified driver's education instructors. The repeal requires all 15-year-olds obtain a learner's permit before driving.

Lawmakers also passed the Kids First Act, sponsored by Del. Heather R. Mizour (D-Dist. 20) of Takoma Park. The legislation makes it easier for parents to enroll their children in the state's Medicaid and Children's Health Insurance Program.

Repeal of the so-called tech tax was widely regarded as the most significant development of the session.

Business groups and tech companies banded together to kill the 6 percent sales tax on computer services passed during November's special legislative session. The tax became the main focus of budget discussions during the last month of the 90-day legislative session.



NAOMI BROOKNER/THE GAZETTE

Dels. Craig L. Rice (left) and Michael L. Vaughn talk before the start of the General Assembly's last day Monday. Rice (D-Dist. 15) of Germantown expressed concern about a temporary tax on high-income earners: "We should not be balancing tax policy on one class of people."

On Saturday, the House of Delegates voted 93-44 to repeal the tax, following the Senate's 30-17 vote two days earlier.

The repeal passed after lawmakers agreed to a plan pushed by O'Malley that replaced \$200 million in revenues that was to be generated by the tax with a new income tax bracket of 6.25 percent on incomes above \$1 million and by \$100 million in cuts to

transportation and other state programs. The new tax bracket applies to 0.2 percent of Maryland taxpayers and will expire after three years.

Republicans and some Montgomery County officials preferred replacing the tech tax with deeper budget cuts.

"You're exchanging one for the other," Del. Herman L. Taylor Jr. (D-Dist. 14) of Ashton said of

the new income tax bracket. "I don't know if that's a good compromise, just like the computer tax, we're going to have to wait and see. Instead of hitting millionaires' businesses, we hit millionaires directly."

While everyone in the Montgomery County House delegation supported a repeal, delegates were split on how to replace the revenue, said delegation Chair-

man Brian J. Feldman (D-Dist. 15) of Potomac.

"Some of us had other ideas," said Feldman, who supported deeper budget cuts. "During a time when the national economy is at a downturn, I think we did some things to be proud of."

That included freezing in-

CONT.

SESSION

state tuition at state universities, providing a 2 percent cost-of-living increase for state employees, securing \$333 million in school construction money statewide and providing \$76 million for school systems where the cost of educating students is highest — including Montgomery, Feldman said.

The legislature also took steps to protect the environment and increase transportation funding while maintaining Maryland's AAA bond rating, which allows the state to borrow money at lower rates.

Sen. Jennie M. Forehand, whose repeal bill was amended to include the millionaires' tax, said it was "unfortunate" that lawmakers had to choose between taxes.

"In a good many cases the

people that we were trying to help hurt themselves personally," said Forehand (D-Dist. 17) of Rockville. "But the ones I talked to thought it was the thing to do even if they're going to get hit harder on their taxes the next three years."

County officials had mixed feelings.

"I felt clearly that there was an urgency to do it," County Executive Isiah Leggett (D) said. "The question for us is how do you want us to take our poison? The computer tax disproportionately hits us. The income tax disproportionately hits us. The transportation matter disproportionately hits us."

The tech tax repeal will burden Montgomery County residents unfairly, said County Council President Michael J. Knapp (D-Dist. 2) of Germantown.

Of the state's 6,150 millionaires, 41 percent live in Montgomery County, Baltimore

County has the next highest number.

"Montgomery County is solving a statewide problem — again," Knapp told reporters in Rockville on Monday.

Like Knapp, Del. Craig L. Rice was concerned about the effect of the tax on Montgomery's high-income earners.

"I think Montgomery County has work to do," said Rice (D-Dist. 15) of Germantown. "I think as a delegation, we have got to do a better job at standing together on these things. We should not be balancing tax policy on one class of people."

Still, Montgomery County dodged "far worse" options, including pushing the cost of teacher pensions on to county governments or cuts to school construction, Leggett said.

The repeal was the linchpin in a budget that includes \$25 million to clean up the Chesapeake Bay and up to \$20 mil-

lion for stem cell research. The \$1.5 billion capital budget includes \$333 million for public school construction, hundreds of millions for higher education and \$25 million in local projects.

In an eleventh-hour move, lawmakers approved an agreement between the state and Constellation Energy that will provide BG&E ratepayers with one-time refunds of \$170 and relieves customers of about \$1.5 billion in costs related to the eventual decommissioning of the Calvert Cliffs Nuclear Power Plant in Calvert County.

The action came after the Senate last week adopted an amendment seeking to re-regulate the state's utilities, putting the settlement in limbo. It also clears one obstacle for the development of a third reactor at Calvert Cliffs.

Lawmakers also approved a framework for selling Prince

George's County's troubled hospital system, which comprises medical centers in Laurel, Bowie and Cheverly.

The agreement calls for Prince George's and the state to pay \$12 million each in fiscal 2009 and fiscal 2010 to keep the three hospitals open. Prince George's County Executive Jack R. Johnson (D) and the Prince George's County Council still must agree on how much they are willing to subsidize the struggling hospital system when a private buyer takes over.

Lawmakers left Annapolis confident that they would not be back for a special legislative session this year. The State House closes this month for a renovation that will take the rest of the year.

Staff Writers Alan Brody and C. Benjamin Ford contributed to this report.