

## Senate panel approves income tax increase

### Shift of teacher pension costs to counties also gets OK

By [Michael Dresser](#), The Baltimore Sun

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Determined to avoid deep cuts to state spending, a Senate committee voted Thursday to approve an increase of roughly one-quarter of a percent in Maryland's income tax rate and to shift part of the state's teacher pension costs to the counties, though at a more gradual pace than proposed by Gov. Martin O'Malley.

On the afternoon's key vote, the Senate Budget and Taxation Committee voted 8-3, with all Republicans dissenting, to adopt a plan that would increase taxes for a millionaire by roughly \$2,800 a year and for a family of four earning \$50,000 by about \$44. The panel also approved a tough new measure to make sure counties keep up their level of spending on education to match the state's increased commitment in recent years.

The budget and related bills are expected to be debated on the Senate floor starting Wednesday, budget committee chairman Edward J. Kasemeyer said.

The committee in effect agreed with O'Malley on the need for more revenue from the income tax but took a different approach to getting it. The governor proposed phasing out deductions and exemptions for households earning \$100,000 or more, or roughly 20 percent of taxpayers. The Senate decided to spread the pain more broadly, increasing rates for all but the poorest Marylanders but adding more brackets to shift the heaviest burden to wealthy taxpayers.

Senators also agreed to a measure pushed by health advocates that would increase the tax on small cigars to the much higher rates already levied on cigarettes. The measure was sold as a means of discouraging children from switching from cigarettes to the small cigars, but it also proved to be an irresistible source of additional revenue.

The bill would reduce Maryland's long-term budget shortfall of roughly \$1 billion, known as the structural deficit, by roughly \$600 million. That would set the stage for its projected elimination the following year.

Kasemeyer, a Democrat who represents Howard and Baltimore counties, said it was the fairest approach the panel could come up with.

"It wasn't a pleasant task, but I feel good about it," he said.

Republican Sens. David Brinkley of Frederick County, Richard Colburn of Dorchester County and George Edwards of Garrett County all voted against the income tax increase.

In adopting its budget, the committee also approved a laundry list of about \$690 million in so-called "doomsday" cuts — mostly in the areas of education and health — that would automatically go into effect if the General Assembly does not approve the pension-shift and revenue-raising plans.

Senate President Thomas V. Mike Miller said he wasn't sure he has the votes to pass the tax and pension proposals on the Senate floor. It is also likely that he will have to round up several more votes to break a possible filibuster. He is not expected to get any Republican support on either vote.

One of the key elements in the budget is the pension shift, which in O'Malley's plan would reduce state spending by about \$240 million in a single year. The Senate panel decided to make the shift over four years. The committee also decided to limit the shift to pension costs for K-12 teachers, keeping the burden on the state for staff at libraries and community colleges.

If the panel sought to lighten the blow to the counties on pensions, it insisted they keep up their part of the education spending formula. Under the Senate plan, counties that fail to meet "maintenance of effort" standards could see their income tax collections diverted by the state to the local school board.

"It's all a question about how people feel about education and what a county's obligation is," Kasemeyer said.

Raquel Guillory, O'Malley's press secretary, said the governor was encouraged to see the panel adopt a strong maintenance-of-effort proposal. She said that while O'Malley preferred his own tax plan, he still considers the Senate's approach "progressive."

"There are elements that we like in this," she said. "It's an ongoing process and we'll continue to have these discussions as we move forward."

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### **Senate budget highlights**

- Income taxes would rise by roughly one-quarter of a percent
- Tax for small cigars would rise to 70 percent from 15 percent
- Governor's proposed sales tax on downloads of music and software rejected
- Some teacher pension costs would shift to counties over four years
- Counties would face penalties if they don't maintain school funding levels