

FLIP IT to FIX IT:

AN IMMEDIATE, FAIR SOLUTION FOR MARYLAND

Severe budget deficits now facing the states represent significant hardship and political challenges, but immediate solutions are feasible and readily available. The national recession has produced historic revenue shortfalls marked by the greatest decline in state tax receipts on record, while concurrently increasing the demand for public services.

When the economy is hurting, state governments should be adding jobs and investments, a proven response that keeps money flowing in the economy and private investors clamoring to meet that demand. Instead, virtually every state has opted to slash vital public investments and layoff public servants. Such moves will harm our nation's infrastructure and educational systems and dampen our nascent economic recovery. This is not good policy in the short or long term, and—contrary to popular belief—it is entirely unnecessary.

At the core of the budget crisis facing states are regressive state tax structures that are unfair, unsound, and unsustainable by design. Fortunately, there is a sensible solution: **inverting the state's current tax structure.**

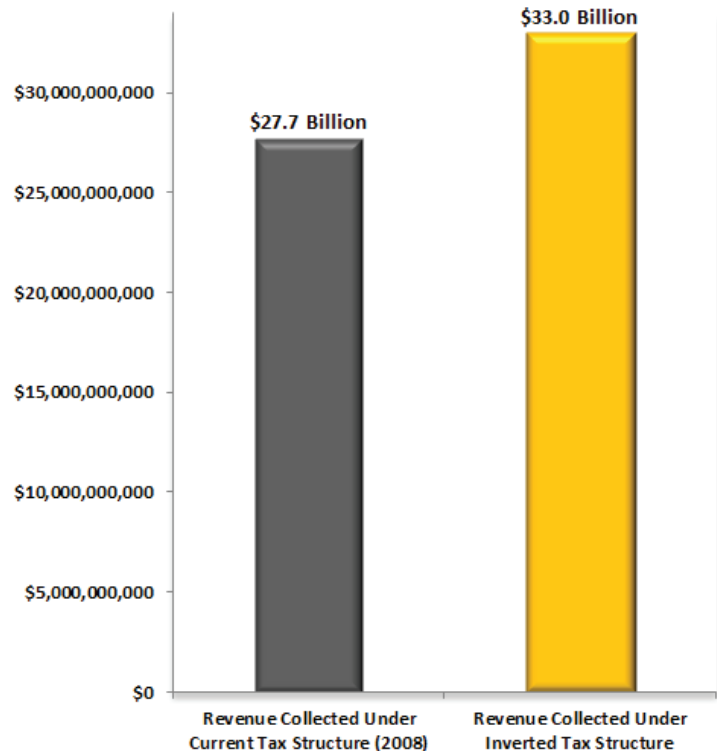
The inversion exercise takes a state's current distribution of state and local taxes by income quintile (lowest 20 percent, second 20 percent, middle 20 percent, fourth 20 percent, top 20 percent) and flips it at the 50th percentile mark, thereby making a regressive structure progressive.

This solution raises significant revenue and results in a tax structure that achieves the three major goals of fiscal policy: economic soundness, equity, and revenue adequacy.

To begin to achieve the inverted structure, states must establish, or significantly improve upon, the graduated personal income tax – the backbone of any progressive tax system. Concurrently, states and localities must significantly reduce their reliance on regressive sales, excise and property taxes, which fall heavily on low- and middle-income families.

The benefits to inversion are clear and many; there is no rational economic argument against a progressive tax structure for every state. The biggest hurdle in achieving such a model is a lack of political will. State level elected officials simply cannot ignore the fundamental roots of their deficit problems, even if significant legislative or constitutional roadblocks make sensible reform a politically difficult undertaking.

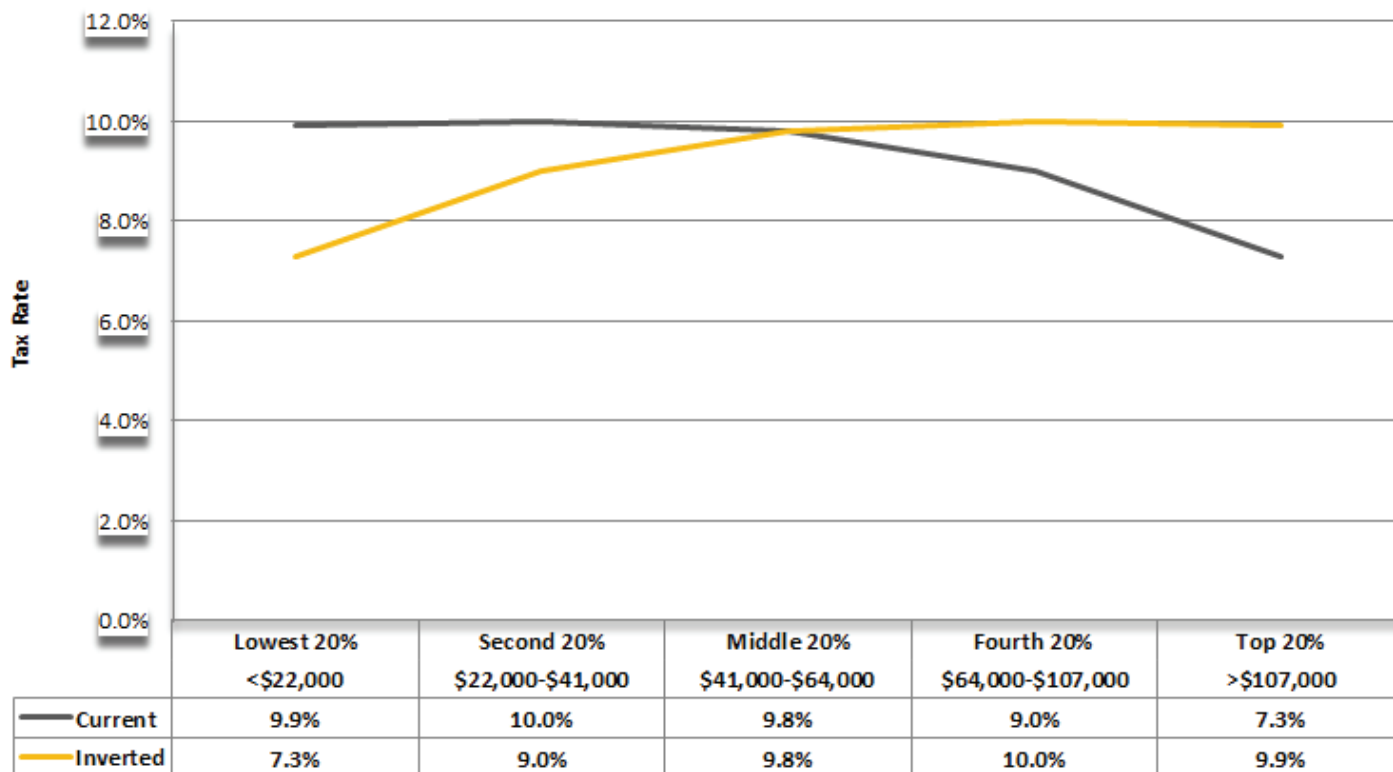
Maryland Tax Revenue:
Current vs. Inverted Structure



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Flip it to Fix it in Maryland:
Current vs. Inverted State and Local Tax System



Above: Maryland’s current regressive tax system in gray, and the inverted, “flipped” model in orange.

The full report is available at www.faireconomy.org/flipitreport.