Testimony on
SB 604: Income Tax Forms--Graphical Representation of General Fund Expenditures
(crossfile HB 743)

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Senator Kasemeyer and members of the Committee, thank you for the opportunity to testify on this bill. I regret that I cannot testify in person, but this hearing is scheduled at the same time I teach a course on Government Budgeting and Financial Management.

This bill is suggested to promote two very important goals--increasing public understanding of the state’s budget, and improving perceptions of the state's business climate. However, the bill as written will at best only have small impacts on these goals. There is a better alternative, which I suggest you study after this session ends.

The bill requires the Comptroller to add a graph to income tax forms that shows the shares of general fund receipts spent on the categories of education, health, public safety, and others to be determined by the Comptroller. The Comptroller is to consult with DBM and DLS on the law’s implementation.

On its face, this is a simple task. And in fact, if done simply--by including the graph only on printed tax forms--the required information will be visible to only about a quarter of taxpayers. Data from the Comptroller’s office show that for tax year 2012, there were 601,586 paper returns. Many more taxpayers filed through commercial preparers (1,449,965), online or using software as self-preparers (731,500), or through the Comptroller’s iFile (158,380). The reasonable assumption is that H&R Block, Intuit, and other commercial preparers will not voluntarily modify their programs to feature a general fund spending display. Assuming the Comptroller could modify iFile to present the graphic, it is still the case that most taxpayers would not see the information required by this bill--and this group will become larger each year as electronic filing grows in popularity.

A second problem with this approach is that many of the taxpayers who will see the information will not pay attention to it. The intent of the bill is understandable--taxpayers should be informed about what services they are getting (for the whole state) in return for the tax prices they pay (individually). But realistically, most taxpayers don’t view preparing their taxes as an opportunity to educate themselves about the state’s finances. Rather, they are often confused and
frustrated by the complexity of the tax system, and want to fill out the forms with the least possible hassle, in hopes of minimizing their taxes owed or maximizing their refunds.

So what would be the better approach? Here it is useful to remember the related question of how the state could improve public perceptions of the state’s business climate. Far too often that climate is described negatively because of supposed high tax burden in Maryland. This characterization is wrong in two respects. First, when adjusted for the state’s high wealth, Maryland’s taxes are actually quite low compared to taxes in other states, as DLS and others have repeatedly shown. Second, as this bill intends to communicate, the state’s attractiveness to business is not primarily based on its rate of taxation, but on other factors that help make businesses profitable. Among the most important are a well-educated workforce and a quality transportation system.

The approach of SB 604 would at least show the public a spending number for education, but it would not say anything about how well the schools are performing. And it would show nothing about transportation spending, which is not financed through the general fund. This focus on the general fund is common--for example, when Governor O’Malley has presented his budget, he has prominently displayed a picture of how the general fund dollar is divided into its major categories. But as you well know, that shows only part of the picture--which is particularly ironic given the creation of special funds for education.

The state would better inform its citizens by presenting a comprehensive but concise display of its finances. That display would show total spending by major policy category, combining the general and special funds, and the state’s major sources of financing. In fact, variants of this approach already exist--they can be found in selected DBM and DLS publications, on the Comptroller’s web page, and in the state’s Consolidated Annual Financial Report.

What the state has yet to do is find an efficient way of communicating this information to the public. The best approach would connect state finances to information about conditions in the state and the performance of its programs. The state already reports extensively along these lines on the DLS web page on “Measuring Maryland’s Progress” and the Governor’s web page about his priority goals--but it is the rare citizen who accesses these sources.

The solution I propose is that you should require the creation of an “Annual Report to Maryland Citizens.” Using accessible language and well-designed graphics, it would present basic budget data and also summarize condition and performance information from the sources mentioned above. The report could be emailed to all electronic tax filers as a recognition of their shareholder status in Maryland’s financing and progress. It could also be distributed to Maryland’s future taxpayers as part of civics education in the high schools.

This approach would have to be done carefully, and so deserves study, but it is likely to be more effective than SB 604.