

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 218 (Senator Manno)
Budget and Taxation

County Income Tax - Maximum Rate and Authority to Impose on a Bracket Basis

This bill increases, from 3.2% to 3.5%, the maximum local income tax rate a county is authorized to impose, and also allows any tax rate increase imposed by a county on or after January 1, 2013, to be imposed on a bracket basis. A county that imposes local income tax rates on a bracket basis must provide notice to the Comptroller's Office by July 1 prior to the effective date of the change and must set the income brackets for each rate by ordinance or resolution.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: Potential significant general fund expenditure increase in FY 2013 due to implementation costs at the Comptroller's Office. The bill will not directly impact State income tax revenues.

Local Effect: Potential increase in local income tax revenues beginning in FY 2013 for counties that opt to impose additional local income taxes. Income tax revenues distributed to all counties will decrease in FY 2013, reflecting the Comptroller's costs of implementing the bill.

Small Business Effect: Minimal.

Analysis

Current Law: The counties and Baltimore City are required to levy a local income tax on their residents. The tax is assessed as a percentage of the taxpayer's Maryland taxable income. Counties are authorized to set a local income tax rate of at least 1% but not more than 3.2%. The tax rate is a flat rate, as counties are not authorized to impose the tax at different tax rates. Generally, each incorporated municipality shares in its county's income taxes by receiving a portion of the county income taxes paid by the municipality's residents.

A county may not increase its income tax rate by an act, ordinance, or resolution above 2.6% until the county has held a public hearing. If a county alters its county income tax rate, the county must (1) alter the tax rate in increments of one-hundredth of a percentage point, effective January 1 of the year the county designates; and (2) provide notice of the change by July 1 prior to its effective date.

The Comptroller's expenses that are necessary to administer the income tax are paid by distributions from State and local income tax revenues. These costs include the amount necessary to administer the local income tax.

Background: During the 1999 session, the General Assembly passed legislation (Chapter 493) that altered the method of calculating local income taxes from a percentage of State tax liability to a flat county income tax rate applied to net taxable income. The legislation specified each county's local income tax rate for calendar 1999 through 2002; however, the county tax rate after calendar 1999 could be altered by a county through an ordinance or resolution. Pursuant to the legislation, county income tax rates may range between 1% and 3.2%.

Over the last five years, local income tax rates have remained relatively stable. Five local jurisdictions – Baltimore City; Howard, Montgomery, Prince George's, and Queen Anne's counties – are imposing the maximum income tax rate of 3.2% in tax year 2012. Worcester County has the lowest local income tax rate at 1.25%. The typical local income tax rate imposed for tax year 2012 is 2.9%.

State Fiscal Effect: The bill increases the maximum local income tax rate counties may impose and authorizes counties to impose the tax on a bracket basis as specified by the bill. The Comptroller's Office administers the State and local income tax. The Comptroller's Office advises it will incur significant expenditures to implement the change, including substantial changes to the SMART income tax processing system to accommodate additional county tax brackets. The Comptroller's Office advises that it cannot accurately provide an estimate given the magnitude of the change, but that the

one-time expenditure increase in fiscal 2013 will be at least \$5 million and up to \$20 million.

Local Fiscal Effect: Local income tax revenues will increase beginning in fiscal 2013 in counties that opt to impose additional local income taxes as authorized by the bill. **Exhibit 1** shows the potential additional revenue yield from imposing a 3.5% county income tax rate (over the amount of revenues generated from the current county income tax rate).

The Comptroller's expenses that are necessary in administering the income tax are paid by distributions from State and local income tax revenues. Assuming the costs are deducted from local income tax revenues, local income tax revenues distributed to all counties will decrease by between \$5 million and \$20 million in fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 21, 2012
ncs/jrb

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Exhibit 1
Additional Revenue Yield from Imposing a 3.5% County Income Tax Rate
Fiscal 2012 – Projected Revenues

| County | Population | County Income Tax Revenues | County Income Tax Rate | Potential Rate Increase | Additional Revenue Yield | Per Capita Amount |
|-----------------|-------------------|-----------------------------------|-------------------------------|--------------------------------|---------------------------------|--------------------------|
| Allegany | 75,087 | \$23,000,000 | 3.05% | 0.45% | \$3,393,400 | \$45.19 |
| Anne Arundel | 537,656 | 366,588,200 | 2.49% | 1.01% | 148,696,400 | 276.56 |
| Baltimore City | 620,961 | 243,612,000 | 3.20% | 0.30% | 22,838,600 | 36.78 |
| Baltimore | 805,029 | 508,547,194 | 2.83% | 0.67% | 120,398,100 | 149.56 |
| Calvert | 88,737 | 61,517,634 | 2.80% | 0.70% | 15,379,400 | 173.31 |
| Caroline | 33,066 | 10,300,000 | 2.63% | 0.87% | 3,407,200 | 103.04 |
| Carroll | 167,134 | 120,000,000 | 3.05% | 0.45% | 17,704,900 | 105.93 |
| Cecil | 101,108 | 44,836,172 | 2.80% | 0.70% | 11,209,000 | 110.86 |
| Charles | 146,551 | 88,744,000 | 2.90% | 0.60% | 18,360,800 | 125.29 |
| Dorchester | 32,618 | 8,600,000 | 2.62% | 0.88% | 2,888,500 | 88.56 |
| Frederick | 233,385 | 155,843,000 | 2.96% | 0.54% | 28,430,800 | 121.82 |
| Garrett | 30,097 | 9,300,000 | 2.65% | 0.85% | 2,983,000 | 99.11 |
| Harford | 244,826 | 161,600,000 | 3.06% | 0.44% | 23,236,600 | 94.91 |
| Howard | 287,085 | 325,465,000 | 3.20% | 0.30% | 30,512,300 | 106.28 |
| Kent | 20,197 | 8,040,000 | 2.85% | 0.65% | 1,833,700 | 90.79 |
| Montgomery | 971,777 | 1,117,243,000 | 3.20% | 0.30% | 104,741,500 | 107.78 |
| Prince George's | 863,420 | 443,234,000 | 3.20% | 0.30% | 41,553,200 | 48.13 |
| Queen Anne's | 47,798 | 31,100,000 | 3.20% | 0.30% | 2,915,600 | 61.00 |
| St. Mary's | 105,151 | 65,500,000 | 3.00% | 0.50% | 10,916,700 | 103.82 |
| Somerset | 26,470 | 6,027,684 | 3.15% | 0.35% | 669,700 | 25.30 |
| Talbot | 37,782 | 19,000,000 | 2.25% | 1.25% | 10,555,600 | 279.38 |
| Washington | 147,430 | 59,380,000 | 2.80% | 0.70% | 14,845,000 | 100.69 |
| Wicomico | 98,733 | 34,376,000 | 3.10% | 0.40% | 4,435,600 | 44.93 |
| Worcester | 51,454 | 9,200,000 | 1.25% | 2.25% | 16,560,000 | 321.84 |
| Total | 5,773,552 | \$3,921,053,884 | | | \$658,465,600 | \$114.05 |

Source: Department of Legislative Services