HB 1141

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1141 (Prince George's County Delegation)
Ways and Means

Prince George's County - County Employees - Taxation and Retirement
PG 437-16

This bill imposes a local income tax surcharge on a person who is employed by the Prince George's County government, Board of Education, or Maryland-National Capital Park and Planning Commission and does not reside within Prince George's County for at least six months during the taxable year. The revenue generated by the surcharge must be dedicated to the Prince George's County public schools. All other counties and Baltimore City must provide a local income tax credit for the amount of the surcharge paid by a resident. The bill also includes specified mandatory retirement provisions for Prince George's County government and Board of Education employees.

Fiscal Summary

State Effect: Potential significant increase in general fund expenditures in FY 2018 due to implementation costs at the Comptroller's Office. The bill will not directly impact State income tax revenues.

Local Effect: Local income tax revenues for Prince George's County may increase by about $30.0 million annually beginning in FY 2018, with education expenditures increasing by a corresponding amount. Local income tax revenues in all other counties and Baltimore City may decrease by about $20.0 million annually beginning in FY 2018.

Small Business Effect: Minimal.

Analysis

Bill Summary:

County Income Tax Surcharge

Beginning in tax year 2017, the bill imposes a local income tax surcharge of 5% on the total Maryland taxable income of each person who derives income from salary, wages, or other compensation from employment by the Prince George's County government, Board of Education, or Maryland-National Capital Park and Planning Commission. The surcharge does not apply to an individual who is a Prince George's County resident for at least six months of the taxable year. All other counties and Baltimore City must provide a local income tax credit for the amount of the surcharge paid by a resident.

Retirement Provisions

The bill requires an employee of the Prince George's County government or Board of Education to retire after 30 years of service. An employee otherwise required to retire may work for one additional year if the employee's job classification or responsibilities have not increased in the previous five years. Prince George's County must establish, by law, a requirement that an individual employed by the county government or the Board of Education in a position in which age may negatively impact job performance must retire before the individual reaches the age of eligibility to receive benefits under the Social Security Act.

These provisions apply to all employees who have been employed by Prince George's County for less than 30 years or who are under the age of 62 years.

Current Law/Background:

Local Income Tax

The counties and Baltimore City are required to levy a local income tax. 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%. Prince George's County currently imposes a local income tax rate of 3.2%.

The county income tax applies to the Maryland net taxable income of each resident, other than a fiduciary, who on the last day of the taxable year (1) is domiciled in the county or (2) maintains a principal residence or place of abode in the county. Except for the county income tax, a county may not impose a general local income, earnings, or payroll tax, a general occupational license tax, or a general license or permit tax based on income, earnings, or gross receipts.

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.

State and Local Pensions

Prince George's County government is a participating governmental unit within the State Retirement and Pension System (SRPS). County employees are members of the Employees' Pension System (EPS) as a condition of employment, and are eligible for retirement with 30 years of service credit or at age 62 with at least 5 years of service credit. Within SRPS, only the State Police Retirement System has a mandatory retirement provision (at age 60). In addition, the Maryland Constitution requires judges (who are members of the Judges' Retirement System) to retire at age 70.

State Fiscal Effect: The Comptroller's Office advises that it may incur significant expenditures in fiscal 2018 to implement the local income tax surcharge and credit specified by the bill, including changes to the SMART income tax processing system.

Local Fiscal Effect:

Prince George's County

The bill imposes a local income tax surcharge of 5% on specified individuals beginning with tax year 2017 and dedicates the revenue to public schools in the county. As a result, local income tax revenues for the county may increase by about $30.0 million annually beginning in fiscal 2018, with education expenditures increasing by a corresponding amount. This estimate is based on the following facts:

- Prince George's County, including the Board of Education and the Maryland-National Capital Park and Planning Commission (within Prince George's County), will pay about $1.85 billion in wages and salaries in fiscal 2017;
- according to the U.S. Census Bureau, about one-half of federal, State, and local government employees who worked in Prince George's County in calendar 2013 did not live in the county; and
- about 70% of the income reported by individuals is taxed.

The surcharge applies to the total income reported by an individual and not just wages and salaries. Accordingly, revenue increases may be more than estimated.

Although EPS members are eligible to retire with 30 years of service credit, many employees accumulate additional credit before retiring. To the extent that mandatory retirement with 30 years of service results in county employees retiring earlier than they otherwise would, county pension liabilities increase due to pension benefits being paid for more years. A precise measure of the increase in pension liabilities is not feasible in the absence of an actuarial calculation, but it is likely significant. Any resulting increase in employer pension contributions is partially, but likely not fully, offset by lower salaries being paid to new employees.

Other Local Jurisdictions

Local income tax revenues in all other counties and Baltimore City will decrease by about $20.0 million annually beginning in fiscal 2018 due to local income tax credits claimed by taxpayers who pay the local income tax surcharge and then claim a credit against the local income tax in the jurisdiction within which the taxpayer resides. This estimate assumes that the credit can reduce, but not to less than zero, local income tax liabilities in other jurisdictions.

All Local Jurisdictions

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 of implementing the bill are deducted from local income tax revenues, local income tax revenues distributed to all counties and Baltimore City will decrease in fiscal 2018.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Prince George's County, Maryland-National Capital Park and Planning Commission, Department of Legislative Services

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