

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1494
 Ways and Means

(Delegate Mosby, *et al.*)

Budget and Taxation

County Income Tax – Authority to Impose on an Income Bracket Basis

This bill authorizes local governments to impose the county income tax on a bracket basis. A county may not (1) impose a minimum rate of less than 2.25% and (2) establish income brackets that differ from the State income brackets. **The bill takes effect July 1, 2020, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund expenditures increase by \$381,200 in FY 2022 due to implementation costs at the Comptroller’s Office. Future years reflect ongoing expenditures. General fund revenues increase by a corresponding amount beginning in FY 2022 due to additional local income tax reimbursements to the Comptroller’s Office.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	\$0	\$381,200	\$320,200	\$326,200	\$332,500
GF Expenditure	\$0	\$381,200	\$320,200	\$326,200	\$332,500
Net Effect	\$0	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local income tax revenues in all counties will decrease by \$381,200 in FY 2022 and by \$332,500 in FY 2025 due to additional local income tax reimbursements. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A county that imposes the county income tax on a bracket basis must (1) set, by ordinance or resolution, the income brackets that apply to each tax rate and (2) inform the Comptroller by July 1 prior to the year in which a new bracket is established.

A county may (1) apply a higher or equal tax rate to a higher income bracket than a rate applied to a lower income tax rate but may not apply a lower rate and (2) request information from the Comptroller to assist the county in determining rates that are revenue neutral. However, any rate changes are not required to be revenue neutral.

Current Law/Background: 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.

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.

Twelve local jurisdictions – Baltimore City and Baltimore, Caroline, Dorchester, Howard, Kent, Montgomery, Prince George's, Queen Anne's, Somerset, Washington, and Wicomico counties – are imposing the maximum income tax rate of 3.2% in tax year 2020. By comparison, six local jurisdictions imposed the maximum rate in tax year 2014.

Worcester County currently has the lowest local income tax rate at 2.25%. **Exhibit 1** shows the county income tax rates under current law. Additional information on local income tax rates and revenues can be found in the [County Revenue Outlook report](#). A copy of the report is available on the Department of Legislative Services website.

Exhibit 1
County Income Tax Rates
Calendar 2020

<u>County</u>	<u>Rate</u>	<u>County</u>	<u>Rate</u>
Allegany	3.05%	Harford	3.06%
Anne Arundel	2.81%	Howard	3.20%
Baltimore City	3.20%	Kent	3.20%
Baltimore	3.20%	Montgomery	3.20%
Calvert	3.00%	Prince George's	3.20%
Caroline	3.20%	Queen Anne's	3.20%
Carroll	3.03%	St. Mary's	3.17%
Cecil	3.00%	Somerset	3.20%
Charles	3.03%	Talbot	2.40%
Dorchester	3.20%	Washington	3.20%
Frederick	2.96%	Wicomico	3.20%
Garrett	2.65%	Worcester	2.25%

A county may change the county income tax rate by ordinance or resolution, except Howard County may change its rate only by ordinance. A county may not impose a rate above 2.6% until after the county has held a public hearing on the proposal. A county that changes its rate must inform the Comptroller of the change by July 1 prior to the year in which the new rate is established.

Exhibit 2 shows the State income tax rates under current law.

Exhibit 2
Maryland State Income Tax Rates
Current Law

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
2.00%	\$1-\$1,000	2.00%	\$1-\$1,000
3.00%	\$1,001-\$2,000	3.00%	\$1,001-\$2,000
4.00%	\$2,001-\$3,000	4.00%	\$2,001-\$3,000
4.75%	\$3,001-\$100,000	4.75%	\$3,001-\$150,000
5.00%	\$100,001-\$125,000	5.00%	\$150,001-\$175,000
5.25%	\$125,001-\$150,000	5.25%	\$175,001-\$225,000
5.50%	\$150,001-\$250,000	5.50%	\$225,001-\$300,000
5.75%	Excess of \$250,000	5.75%	Excess of \$300,000

State Fiscal Effect: The Comptroller’s Office reports that it will incur significant implementation costs to allow for each county to implement a bracket-based county income tax. General fund expenditures for the Comptroller’s Office increase by \$381,200 in fiscal 2022, which assumes a July 1, 2021 effective date. This estimate reflects the cost of hiring one full-time and one part-time revenue examiner, one part-time information technology analyst, and one part-time administrative assistant. It also includes \$125,000 for data processing changes to the income tax return processing and imaging systems and system testing and \$60,000 in additional printing expenses for the income tax booklet.

Positions	2.5
Salaries and Fringe Benefits	\$165,280
Programming Expenses	125,000
Printing Expenses	60,000
Other Operating Expenses	<u>30,928</u>
Total FY 2022 State Expenditures	\$381,208

The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect salaries with annual increases and employee turnover and ongoing operating expenses.

The Comptroller’s expenses that are necessary to administer the income tax are paid by distributions from State and local income tax revenues. Accordingly, general fund revenues

will increase by a corresponding amount due to additional local income tax reimbursements.

Local Revenues: Local income tax revenues in all counties will decrease by \$381,200 in fiscal 2022 and by \$332,500 in fiscal 2025 due to additional local income tax reimbursements paid to cover the Comptroller's implementation costs as discussed above.

Local revenues will be further impacted only to the extent local governments opt to impose the county income tax as authorized by the bill.

Small Business Effect: Small businesses such as partnerships, S corporations, limited liability companies, and sole proprietorships may be impacted to the extent local governments alter county income tax rates as authorized by the bill. To the extent counties impose lower tax rates on certain brackets, small businesses that report lower incomes may have decreased tax liabilities. To the extent counties that do not impose the maximum rate authorized under current law impose a higher rate on higher-incomes, small businesses that report higher incomes may have increased net tax liabilities.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 1040 (Senator Rosapepe) - Budget and Taxation.

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

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