



OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

March 12, 2020

TO: The Honorable Guy Guzzone
Chair, Budget and Taxation Committee

FROM: Marc Elrich
County Executive

RE: Senate Bill 1040 – *Local Tax Relief for Working Families Act of 2020* – Support

Senate Bill 1040 authorizes an increase in the top local income tax rate from 3.2% to 3.5% after tax year 2021 for individual and joint filers with Maryland taxable income greater than \$500,000 and \$600,000, respectively. The bill also requires counties that increase rates after tax year 2021 to apply those increases on a bracket basis; however, applying lower rates on higher income tax brackets than rates applied to lower income tax brackets is prohibited.

Currently, counties do not have the opportunity to create a progressive local income tax system. By State law, a county is allowed to set one rate, between 1% and 3.2%. That single local rate is applied against a taxpayer's taxable income. The State rates vary and they are applied on a bracket basis. So, as taxable income increases, rates increase, making the State's system progressive. Senate Bill 1040 would allow counties that would like to create greater progressivity in their local income tax structures the ability to do so. For counties whose rates are below the current maximum rate of 3.2%, various options exist to create a more progressive system, including one that could be revenue neutral. However, for counties whose local income tax rates are already at the maximum, creating a more progressive system will result in a loss of revenue unless the current top rate of 3.2% is increased. Senate Bill 1040 addresses that problem by establishing a maximum rate of 3.5%, which may only be applied at very high-income levels.

I support Senate Bill 1040. I view it as an important tool that would allow Montgomery County to introduce greater progressivity in the application of its local income tax – and not as a license to raise taxes and generate new revenue. Progressive systems of taxation have always been a core principal of the Democratic Party. This bill reflects that core value and for that reason, I respectfully request that the Senate Budget and Taxation Committee give Senate Bill 1040 a favorable report.

cc: Members of the Budget and Taxation Committee