

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 470
Ways and Means

(Delegate Palakovich Carr)

County Income Tax - Rate and Income Brackets - Alterations

This bill increases, from 3.2% to 3.7%, the maximum income tax rate that a county may impose on Maryland taxable income beginning in tax year 2026; however, a county may set an income tax rate that is greater than 3.2% only on Maryland taxable income that is in excess of \$250,000 for single filers, dependent filers, and married individuals filing separately and \$300,000 for joint filers, surviving spouses, and heads of household. The bill states the intent of the General Assembly that a county that imposes an income tax rate that exceeds 3.2% of an individual's Maryland taxable income utilize the revenue attributable to the tax rate in excess of 3.2% for the funding of public education and transportation. Lastly, the bill limits to six the number of income tax brackets that a county may set for (1) single filers, dependent filers, and married individuals filing separately and (2) joint filers, surviving spouses, and heads of household. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: The Comptroller's Office can implement the bill's changes with existing budgeted resources. Revenues are not affected.

Local Effect: Local revenues are potentially affected as early as FY 2026 to the extent that counties choose to alter income tax rates in accordance with the bill's authorization. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Local Income Tax

Each county and Baltimore City must impose a local income tax on the Maryland taxable income of its residents at a rate of at least 2.25% and up to 3.2%. Chapter 23 of the 2021 special session increased the minimum required local income tax rate from 1% to 2.25%.

Chapter 23 also authorized counties to impose the county income tax on a bracket basis. A county that imposes the county income tax on a bracket basis must set, by ordinance or resolution, the income tax brackets that apply to each income tax rate and may adopt income brackets that differ from the State income tax brackets. However, a county may not (1) set a minimum tax rate of less than 2.25% of Maryland taxable income or (2) apply an income tax rate to a higher income bracket that is less than the income tax rate applied to a lower income bracket. A county may request information from the Comptroller to assist the county in determining income brackets and applicable income tax rates that are revenue-neutral for the county.

Local income tax rates may be changed only by ordinance or resolution. A county may not increase its county income tax rate above 2.6% until the county has held a public hearing on the proposed rate increase, as specified. A county must notify the Comptroller of a rate or income bracket change by July 1 prior to the change's effective date.

Exhibit 1 shows the county income tax rates for tax year 2023. As shown in the exhibit, 10 counties and Baltimore City impose the highest allowable county income tax rate of 3.2% for tax year 2023, and two counties (Anne Arundel and Frederick counties) have adopted bracket-based income tax rates for tax year 2023.

Additional information on local income tax rates and revenues can be found in the [County Revenue Outlook report](#).

Exhibit 1
County Income Tax Rates
Tax Year 2023

<u>County</u>	<u>Rate</u>	<u>County</u>	<u>Rate</u>
Allegany	3.03%	Harford	3.06%
Anne Arundel	* See below	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	3.00%
Cecil	2.80%	Somerset	3.20%
Charles	3.03%	Talbot	2.40%
Dorchester	3.20%	Washington	2.95%
Frederick	* See below	Wicomico	3.20%
Garrett	2.65%	Worcester	2.25%

* Anne Arundel County: The local income tax rate for tax year 2023 is 2.70% for Maryland taxable income up to \$50,000 and 2.81% for Maryland taxable income in excess of \$50,000.

* Frederick County: The local income tax rate for tax year 2023 is 2.75% for taxpayers with Maryland taxable income of up to \$50,000 (\$100,000 for joint filers, heads of household, and qualifying surviving spouses with a dependent child) and 2.96% for all other taxpayers.

Source: Comptroller's Office; Department of Legislative Services

Nonresidents who are subject to the State income tax but are not subject to the county income tax are subject to the special nonresident tax at a rate equal to the lowest county income tax rate in Maryland (currently 2.25%).

State Income Tax Rates

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

Exhibit 2
Maryland State Income Tax Rates

Single, Dependent, Married Filing Separately		Joint, Surviving Spouse, Head of Household	
<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

Source: Comptroller's Office; Department of Legislative Services

Local Revenues: As discussed above, the bill authorizes counties to impose local income tax rates that exceed the current maximum rate (3.2%) on Maryland taxable income that is in excess of \$250,000 for single filers, dependent filers, and married individuals filing separately and \$300,000 for joint filers, surviving spouses, and heads of household. Thus, local income tax revenues are potentially affected to the extent that counties elect to modify local income tax rates in accordance with the bill's authorization. Any such effect cannot be reliably predicted, as it depends on the policy decisions of local governments.

The bill's limit on the number of income tax brackets a county may set is not anticipated to affect local revenues; to date, no county has established income tax brackets in excess of the bill's limit.

Small Business Effect: Small business partnerships, S corporations, limited liability companies, and sole proprietorships may be impacted to the extent local governments alter county income tax rates in accordance with the bill's authorization. To the extent that counties increase local income tax rates above 3.2% for specified higher-income brackets, the bill may result in higher net income tax liabilities for some affected small business taxpayers. Similarly, the bill may result in lower net income tax liabilities for some affected small business taxpayers to the extent that the bill results in concurrent reductions in income tax rates for lower income brackets.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 270 and HB 142 of 2023.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Maryland Department of Transportation; Baltimore City; Prince George's County; Maryland Association of Counties; Comptroller's Office; Department of Legislative Services

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