HB 921

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 921 (Delegate Bobo, et al.)
Ways and Means — Referred to Budget and Taxation

County Income Tax

This amended bill makes the local income tax optional. It is no longer based on State tax liability, but on State taxable income. Counties and Baltimore City may set a top marginal rate of between 0% and 3%, at 0.25% intervals. Between 2.5% and 3%, the rate may be set at 0.1% intervals. The rate may not be increased above 2.5% unless a public hearing is held. Marginal county rates are provided for, and a local earned income credit is created. The Comptroller is required to include in the tax booklet tables showing the county income tax due for each income interval of $100 or less. The county income tax is to be shown as a separate line on the income tax form.

This bill is effective July 1, 1996, and applies to all taxable years beginning after December 31, 1996.

Fiscal Summary

State Effect: General fund expenditures could increase by $7,500 in FY 1997; future year expenditures reflect one-time programming costs and continuing costs with 2% inflation. Revenue would not be affected.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	7,500	414,000	343,700	350,600	357,600
Net Effect	($7,500)	($414,000)	($343,700)	($350,600)	($357,600)

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

Local Effect: None, as discussed below.

Fiscal Analysis

State Expenditures: The Office of the Comptroller advises that general fund expenditures could increase by $106,700 in fiscal 1997 and $414,000 in fiscal 1998. These costs include:

- computer programming changes related to the decoupling ($84,500);
- printing and mailing new withholding tables ($99,200);
- printing the required tax tables for local taxes in the tax booklets ($104,500);
- increased postage for the heavier tax booklets ($182,000); and
- funding for temporary workers to correct increased errors in tax returns ($50,500).

The Department of Fiscal Services advises that new withholding tables, which would cost an estimated $99,200 to print and mail, need not necessarily be printed. The data in the withholding tables would not change under this bill; only the headings (with current piggyback rates) would change. The only relevant information for employers, however, is which county an employee resides in. A card could be printed showing which tables to use for each county, much as a card is issued each year if a county changes piggyback rates. While this would save the cost of printing and mailing new tables, it could cause increased errors and increase administrative costs of the Comptroller.

If and when a county adopts a rate which is not reflected in the current tables, new tables could be printed with the correct headings. These costs would not necessarily be attributable to this bill, as counties have the authority under current law to use piggyback rates which are not reflected in the current tables.

Furthermore, the Department of Fiscal Services advises that if other legislation is passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This would reduce computer programming costs associated with this bill and other income tax legislation.

Fiscal 1997 costs would total $7,500; fiscal 1998 costs would total an estimated $414,000 (including one-time computer programming costs); fiscal 1999 costs would total about $343,000. These continuing costs include printing the additional tables, mailing the heavier tax booklets, and hiring temporary workers because of increased errors. Beyond fiscal 1999, the costs associated with this bill are estimated to increase at 2% per year.

Local Effect: Assuming counties adopt top marginal income tax rates equivalent to their current piggyback rates (i.e., 2.5% is equivalent to a 50% piggyback rate), there would be no impact on local revenues. This result occurs because provisions for graduated rates and the local earned income credit ensure that all taxpayers would be paying the same taxes as under current law.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Fiscal Services

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