SB 900

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 900 (Senator Hoffman, *et al.*)
Budget and Taxation

County Income Tax

This bill makes the local income tax optional, and bases it on State taxable income rather than State tax liability. The local jurisdictions are made responsible for administering and collecting the local tax. Counties and Baltimore City may set a top marginal rate of between 1% and 3%, at 0.25% intervals. Between 2.5% and 3%, the rate may be set at 0.1% intervals. Marginal county rates are provided for, as is a local earned income credit.

This bill is effective October 1, 1997, and applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues would decline substantially due to lost interest income. Expenditures would be affected as discussed below.

Local Effect: Substantial increase in local expenditures beginning in FY 1998. Revenues could increase substantially due to increased interest income.

Small Business Effect: Meaningful effect on small businesses as discussed below.

Fiscal Analysis

State Revenues: Since the local income tax revenue would be collected directly by the counties, the State would lose interest on the collections attributable to the piggyback tax. This loss in fiscal 1998 applies to distributions made May 31, for first quarter withholding, and June 28, for April and May withholding.

In fiscal 1999, the Comptroller would not make any quarterly distributions to the counties as the counties would be collecting the tax. In fiscal 2000 and later, final tax year and adjusted tax year distributions also would not be made, increasing the lost interest slightly.

The amount of lost interest income cannot be reliably estimated at this time.

State Expenditures: In fiscal 1998, $12.45 million is budgeted for local income tax administration. About half of this figure represents salaries and benefits; the other half is generally for contractual services. This amount is paid by the counties to the Comptroller for costs relating to administering the local income tax. Expenditures for this function would continue near this level for at least three years, since the Comptroller is required to process returns and issue refunds for three years after the end of a tax year.

Additional expenditures would be incurred for printing and mailing new withholding tables without reference to local income tax rates. It would cost about $97,000 to print and mail the current tables; the new tables would cost substantially less, since about 80% fewer pages would be required.

Local Revenues: Local revenues would increase due to increased interest earnings since the counties would be collecting the county income tax directly. The increases would be approximately the same amount as the State revenue loss.

Those counties with a top marginal tax rate greater than 2.5% (piggyback rate of 50%) will receive a revenue increase because the earned income credit is 25% of the federal, rather than the effective credit of 30% of the federal credit (at a 60% piggyback rate). Similarly, counties with top marginal rates below 50% will lose revenue since the 25% credit would be greater than the current effective local credit. The net change is an estimated increase of $4.3 million for 12 counties.

Local Expenditures: Local expenditures would increase an indeterminate but substantial amount to establish a local system for administering and collecting the county income tax. These costs would include printing and distributing forms and withholding tables, mailing refund checks, and establishing auditing and accounting systems. Costs would be greater than those for administering the property tax, since more steps would be involved and there would be substantially more taxpayers.

After three tax years, payments to the Comptroller for administering the local income tax would be substantially reduced. This reduction in expenditures could partially or completely offset the increased expenditures for establishing the county income tax system, but would not be fully realized until fiscal 2001 at the earliest.
It is likely that the net effect would be positive for some, but probably not all counties.

Small Business Effect: This bill requires that withholding payments would have to be made to county governments. Thus, employers would have to make at least two and perhaps many more withholding payments, increasing administrative complexity and costs.

Information Source(s): Office of the Comptroller (Revenue Administration Division); Montgomery and Prince George's counties, Department of Fiscal Services

Fiscal Note History: First Reader - March 10, 1997
mld

Analysis by: David F. Roose
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710