

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 876 (Delegate La Vav)

Ways and Means

County Income Tax

This bill “recouples” the county income tax to the State income tax by allowing the 1997 income tax reduction and the subsequent acceleration of the tax reduction to flow through to the counties.

Fiscal Summary

State Effect: None.

Local Effect: Local and municipal revenues would decrease by \$148 million in FY 2000. Revenue losses in future years depend on piggyback rate increases, if any, that the jurisdictions adopt. No effect on expenditures.

Small Business Effect: None.

Fiscal Analysis

Background: Beginning with the 1998 tax year, the computation for the county income tax was no longer a percentage of the State income tax liability as in previous tax years. The local tax was “decoupled” from the State tax in order to hold the counties harmless from any revenue loss resulting from the 1997 Tax Reduction Act (Chapter 4 of 1997) and the subsequent acceleration of the income tax reduction (Chapter 4 of 1998).

Under current law the top marginal tax rate for the State income tax is 4.85% in 1999, 4.85% in 2000, 4.8% in 2001, and 4.75% for all taxable years beginning in 2002. The personal exemption amount is also phased-in over time; from \$1,850 in 1999 to \$2,400 in 2002 and subsequent years. The county income tax is calculated separately using the top State rate of 5% and the \$1,200 personal exemption that were in effect before enactment of the 1997 Tax

Reduction Act.

State Expenditures: The Office of the Comptroller would incur one-time computer programming costs of \$35,000 to return the calculation of the local income tax to pre-tax year 1998 methodology and \$3,075 in expenses to modify forms and instructions. The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized since there will be changes to the income tax processing system due to the 1997 income tax reduction which is phased-in through 2002. In addition, since forms and instructions are updated annually, the costs for form changes resulting from this bill could be absorbed within existing resources.

Local Revenues: Under current law, the Comptroller must be notified of changes to the county income tax rate by July 1, prior to its effective rate. Thus, counties would not be able to change their piggyback rates for tax year 1999. Consequently, local piggyback revenues will decrease by \$148 million in fiscal 2000. For tax year 2000 and beyond, the revenue loss to the counties and Baltimore City depends on the rate increases, if any, that the jurisdictions adopt. It should be noted that counties currently at the maximum rate of 60% would not be able to increase their rates to offset the revenue loss from the recoupling. The counties with a 60% piggyback rate are Caroline, Montgomery, Prince George's, Somerset, and Wicomico. In addition, counties with piggyback rates at 55% and above would be constrained by the 60% cap and would not be able to recover all of the revenue loss from the recoupling; those currently at 58% would be affected in 2000 when rates are first adjusted, while those currently at 55% would be affected in 2002 when the tax cut is fully phased-in.

The exhibits below present the piggyback revenues for each county under current law and under the bill if rates are not adjusted, and the corresponding revenue loss. Also included are the "budget-neutral" rates: the rates the counties will need to approximately maintain revenues. **Exhibit 1** shows the estimates for tax year 1999 and **Exhibit 2** presents the estimates for tax year 2002, when the tax cut is fully phased-in. The estimates for 2002 are based on forecasted aggregate county revenues in tax year 2002 and assume that growth rates are equivalent across counties. Since the bill requires rate changes to be made in increments of two or five percentage points, as the exhibits indicate, the adjustment for those counties not affected by the 60% cap will result in either slightly higher or lower piggyback revenues.

Revenues will decrease for those municipalities that receive an income tax distribution that is based on the county income tax liability of its residents.

Exhibit 1
Impact of Recoupling for Tax Year 1999

<u>County</u>	<u>Local Tax Rate</u>	<u>Current Law Taxes</u>	<u>Recoupled Taxes Using Current Rates</u>	<u>Local Revenue Loss</u>	<u>Rate for Budget- Neutrality</u>
Allegany	58%	\$19,743,648	\$18,559,030	\$1,184,619	61.70%
Anne Arundel	50%	230,866,158	217,014,188	13,851,969	53.19%
Baltimore	55%	394,403,479	370,739,270	23,664,209	58.51%
Baltimore City	50%	147,669,419	138,809,254	8,860,165	53.19%
Calvert	50%	31,039,739	29,177,354	1,862,384	53.19%
Caroline	60%	8,246,037	7,751,275	494,762	63.83%
Carroll	55%	66,049,993	62,086,993	3,963,000	58.51%
Cecil	50%	27,689,037	26,027,695	1,661,342	53.19%
Charles	50%	44,782,407	42,095,463	2,686,944	53.19%
Dorchester	50%	7,589,186	7,133,835	455,351	53.19%
Frederick	50%	79,083,524	74,338,513	4,745,011	53.19%
Garrett	50%	6,366,986	5,984,967	382,019	53.19%
Harford	50%	91,035,376	85,573,253	5,462,123	53.19%
Howard	50%	143,522,436	134,911,090	8,611,346	53.19%
Kent	50%	6,190,519	5,819,088	371,431	53.19%
Montgomery	60%	711,957,598	669,240,142	42,717,456	63.83%
Prince George's	60%	310,891,931	292,238,415	18,653,516	63.83%
Queen Anne's	55%	18,765,453	17,639,526	1,125,927	58.51%
St. Mary's	58%	31,308,797	29,430,269	1,878,528	61.70%
Somerset	60%	4,389,898	4,126,504	263,394	63.83%
Talbot	35%	11,653,382	10,954,179	699,203	37.23%
Washington	50%	39,236,757	36,882,551	2,354,205	53.19%
Wicomico	60%	29,397,067	27,633,243	1,763,824	63.83%
Worcester	20%	<u>5,821,245</u>	<u>5,471,970</u>	<u>349,275</u>	21.28%
Total		\$2,467,700,071	\$2,319,638,067	\$148,062,004	

Exhibit 2
Impact of Recoupling for Tax Year 2002

<u>County</u>	<u>Local Tax Rate</u>	<u>Current Law Taxes</u>	<u>Recoupled Taxes Using Current Rates</u>	<u>Local Revenue Loss</u>	<u>Rate for Budget- Neutrality</u>
Allegany	58%	\$23,319,300	\$20,987,370	\$2,331,930	64.44%
Anne Arundel	50%	272,676,912	245,409,221	27,267,691	55.56%
Baltimore	55%	465,831,474	419,248,327	46,583,147	61.11%
Baltimore City	50%	174,412,922	156,971,629	17,441,292	55.56%
Calvert	50%	36,661,155	32,995,040	3,666,116	55.56%
Caroline	60%	9,739,426	8,765,483	973,943	66.67%
Carroll	55%	78,011,902	70,210,712	7,801,190	61.11%
Cecil	50%	32,703,629	29,433,266	3,270,363	55.56%
Charles	50%	52,892,674	47,603,407	5,289,267	55.56%
Dorchester	50%	8,963,617	8,067,255	896,362	55.56%
Frederick	50%	93,405,856	84,065,271	9,340,586	55.56%
Garrett	50%	7,520,072	6,768,065	752,007	55.56%
Harford	50%	107,522,235	96,770,011	10,752,223	55.56%
Howard	50%	169,514,904	152,563,413	16,951,490	55.56%
Kent	50%	7,311,646	6,580,481	731,165	55.56%
Montgomery	60%	840,895,871	756,806,284	84,089,587	66.67%
Prince George's	60%	367,195,662	330,476,095	36,719,566	66.67%
Queen Anne's	55%	22,163,949	19,947,554	2,216,395	61.11%
St. Mary's	58%	36,978,941	33,281,047	3,697,894	64.44%
Somerset	60%	5,184,926	4,666,433	518,493	66.67%
Talbot	35%	13,763,855	12,387,469	1,376,385	38.89%
Washington	50%	46,342,685	41,708,417	4,634,269	55.56%
Wicomico	60%	34,720,990	31,248,891	3,472,099	66.67%
Worcester	20%	<u>6,875,494</u>	<u>6,187,945</u>	<u>687,549</u>	22.22%

Total

\$2,914,610,096

\$2,623,149,086

\$291,461,010

Information Source(s): Maryland Association of Counties, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

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Analysis by: Lina Walker

Direct Inquiries to:

John Riley, Coordinating Analyst

(410) 946-5510

(301) 970-5510