

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE  
 Revised

House Bill 1149 (Delegate Hixson. *et al.*)

Ways and Means

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County Income Tax

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This emergency bill adopts a different methodology for computing county income taxes. County taxes are determined from Maryland taxable income instead of as a percentage of State income taxes. Under current law, the county piggyback tax rate ranges from 20% to 60% of State income taxes. Under the bill, county income tax rates will range between 1% and 3.2% of Maryland taxable income. The rates for each county for tax years 1999 through 2002 are specified in the bill, although a county may adjust its rates after tax year 1999.

The bill also eliminates the two-earner subtraction adjustments for the phase-in of the State tax reduction and maintains it at \$1,200. The bill also makes adjustments to the calculation of the earned income credit and the poverty level credit for low-income wage earners to correspond with the new method for computing county taxes.

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Fiscal Summary

**State Effect:** General fund revenues could decrease by \$1.7 million in FY 2000. Future year revenue losses reflect the impact of the income tax phase-in. No effect on expenditures.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	(\$1.7)	(\$1.7)	(\$2.3)	(\$3.0)	(\$3.0)
GF Expenditures	0	0	0	0	0
Net Effect	(\$1.7)	(\$1.7)	(\$2.3)	(\$3.0)	(\$3.0)

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

**Local Effect:** County and municipal revenues would be affected minimally, as shown in Exhibit 1 below.

**Small Business Effect:** Minimal.

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## Fiscal Analysis

**Background:** Beginning with the 1998 tax year, the computation for the county income tax was no longer a simple application of the local piggyback rate to the State income tax. 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. In addition, the two-earner subtraction modification is reduced from \$1,200 to \$1,105 over the relevant period to correspond with the reduction in the top marginal rate. 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 Revenues:** Repealing the reduction in the two-earner subtraction modification and allowing taxpayers to claim \$1,200 instead will reduce general fund revenues by \$1.7 million in tax years 1999 and 2000, \$2.3 million in tax year 2001, and \$3.0 million in tax year 2002 and thereafter. The loss increases over time because the reduction in the two-earner subtraction amount was phased-in over time.

The Office of the Comptroller would incur one-time computer programming costs of \$55,000 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:** The bill establishes a flat county income tax rate that is applied to Maryland taxable income which is based on the higher exemption value pursuant to the 1997 Income Tax Reduction Act. The rates specified in the bill account for the higher exemption value; they do not, however, adjust for the lower tax rates that currently apply to the first \$3,000 of income. Given the modifications, the rates essentially maintain revenues for the counties at current levels. The exhibit below shows the impact on the counties with the rates specified under the bill. The counties may establish by ordinance or resolution a different rate after 1999.

**Exhibit 1: Revenue Impact of House Bill 1149****Tax Year (in \$)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>TOTAL</u>
<b>Allegany</b>	\$18,524	\$16,137	\$30,555	\$27,563	<b>\$92,779</b>
<b>Anne Arundel</b>	222,540	-222,232	118,457	-27,554	<b>91,211</b>
<b>Baltimore</b>	614,114	54,448	-18,020	326,320	<b>976,862</b>
<b>Baltimore City</b>	255,486	50,579	165,786	-36,338	<b>435,514</b>
<b>Calvert</b>	-7,815	30,568	-37,868	13,706	<b>-1,409</b>
<b>Caroline</b>	12,387	-6,616	2,825	22,696	<b>31,292</b>
<b>Carroll</b>	-74,831	49,572	-98,182	27,109	<b>-96,332</b>
<b>Cecil</b>	9,084	-40,320	-10,340	19,474	<b>-22,102</b>
<b>Charles</b>	66,449	-17,867	74,509	12,454	<b>135,546</b>
<b>Dorchester</b>	2,319	3,366	15,861	20,460	<b>42,006</b>
<b>Frederick</b>	97,484	-87,304	76,612	-1,066	<b>85,726</b>
<b>Garrett</b>	9,705	9,450	4,555	9,931	<b>33,641</b>
<b>Harford</b>	62,562	-117,728	122,460	99,282	<b>166,576</b>
<b>Howard</b>	75,207	236,646	159,378	-180,516	<b>290,715</b>
<b>Kent</b>	11,540	8,459	3,246	3,373	<b>26,618</b>
<b>Montgomery</b>	789,313	-418,189	-857,327	30,996	<b>-455,206</b>
<b>Prince George's</b>	-231,320	-194,433	-321,242	646,681	<b>-100,315</b>
<b>Queen Anne's</b>	11,757	-25,402	-7,042	15,806	<b>-4,882</b>
<b>St. Mary's</b>	-44,849	-1,213	29,781	12,296	<b>-3,985</b>
<b>Somerset</b>	-1,634	-3,547	10,606	6,675	<b>12,100</b>
<b>Talbot</b>	15,197	-23,983	-12,746	-26,620	<b>-48,153</b>
<b>Washington</b>	50,570	-3,426	20,906	54,620	<b>122,298</b>
<b>Wicomico</b>	30,424	40,762	19,772	8,655	<b>99,614</b>
<b>Worcester</b>	23,759	-18,693	-454	-8,654	<b>-4,042</b>
<b>TOTAL</b>	<b>\$2,017,971</b>	<b>-\$680,963</b>	<b>-\$507,915</b>	<b>\$1,076,978</b>	<b>\$1,906,071</b>

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

**Fiscal Note History:**

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Analysis by: Lina Walker

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 946-5510

(301) 970-5510