

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 736

(Senator Simonaire, *et al.*)

Budget and Taxation

Real Local Tax Relief for Working Families Act of 2022

This bill requires local governments to impose a minimum local income tax rate of 1% instead of 2.25% as required under current law. The bill also alters the local income tax rates that a jurisdiction must impose in order to qualify for enhanced State funding under the disparity grant program if the jurisdiction imposes the local income tax on a bracket basis. **The bill takes effect June 1, 2022, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: State revenues from the special nonresident tax may decrease beginning in FY 2024. Expenditures are not directly affected.

Local Effect: State funding for the disparity grant program could be affected depending on whether a jurisdiction imposes the local income tax on a bracket basis. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill alters the local income tax rates that a jurisdiction must impose in order to qualify for enhanced State funding under the disparity grant program if the jurisdiction imposes the local income tax on a bracket basis. Pursuant to the bill, the minimum grant amounts will be based on the following local income tax rates:

- 20% of the uncapped grant amount (at least 2.8% for taxable income in excess of \$500,000);

- 40% of the uncapped grant amount (at least 3.0% for taxable income in excess of \$500,000); and
- 75% of the uncapped grant amount (at least 3.2% for taxable income in excess of \$500,000).

Current Law:

Local Income Tax

The counties and Baltimore City are required to levy a local income tax on their residents. The tax is assessed as a percentage of the taxpayer's Maryland taxable income. Generally, each incorporated municipality shares in its county's income taxes by receiving a portion of the county income taxes paid by the municipality's residents.

Beginning in tax year 2023, counties may impose the local income tax on a bracket basis. A county that imposes the local income tax on a bracket basis must (1) set, by ordinance or resolution, the income brackets that apply to each tax rate and (2) inform the Comptroller by July 1 prior to the year in which a new bracket is established. A county may (1) apply a higher or equal tax rate to a higher income bracket than a rate applied to a lower income bracket but may not apply a lower rate; (2) establish income brackets that differ from the State income brackets; and (3) request information from the Comptroller to assist the county in determining rates that are revenue neutral. However, any rate changes are not required to be revenue neutral.

Without regard to whether the county imposes the income tax on a bracket basis, a county must impose a minimum local income tax rate of at least 2.25% but not more than 3.2%.

Additional information on local income tax rates and revenues can be found in the [County Revenue Outlook report](#). A copy of the report is available on the Department of Legislative Services [website](#).

Special Nonresident Tax

The Budget Reconciliation and Financing Act of 2004 (Chapter 430) established a tax on nonresidents who are subject to the State income tax but are not subject to the local income tax. The tax imposed is at a rate equal to the lowest local income tax rate in Maryland (currently equal to 2.25%). Revenues generated by the special nonresident tax are distributed to the State's general fund; about 170,000 nonresident returns paid a total of \$133.3 million in tax year 2018.

Disparity Grant Program

The disparity grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which for most counties is one of the larger revenue sources. County governments with per capita local income tax revenues less than 75% of the statewide average receive grants unless a county has an income tax rate below 2.6%.

For jurisdictions that do not impose the local income tax rate on a bracket basis, the minimum grant amounts are based on the following:

- 20% of the uncapped grant amount (2.8% to 3.0% local income tax rate);
- 40% of the uncapped grant amount (3.0% to 3.2% local income tax rate); and
- 75% of the uncapped grant amount (3.2% local income tax rate).

Chapters 17 and 23 of the 2021 special session altered the local income tax rates that a jurisdiction must impose in order to qualify for enhanced State funding under the disparity grant program. This change is subject to the jurisdiction imposing the local income tax on a bracket basis. The minimum grant amounts are based on the following local income tax rates:

- 20% of the uncapped grant amount (at least 2.8% but less than 3.0%);
- 40% of the uncapped grant amount (at least 2.9% for taxable income at \$100,000 and under, at least 3.0% for taxable income in excess of \$100,000); and
- 75% of the uncapped grant amount (at least 3.1% for taxable income at \$100,000 and under, at least 3.2% for taxable income in excess of \$100,000).

Additional information on State funding for the disparity grant program can be found in the [State Aid Overview report](#). A copy of the report is available on the Department of Legislative Services [website](#).

State and Local Fiscal Effect: All counties currently impose at least a 2.25% local income tax rate. To the extent a county decreases its local income tax rate below 2.25% as authorized by the bill, State revenues generated by the special nonresident tax will decrease.

State funding for the disparity grant program will be impacted only to the extent local governments opt to impose the local income tax on a bracket basis as authorized by Chapters 17 and 23 of the 2021 special session.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Legislative Services

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