

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 270

(Senator Rosapepe, *et al.*)

Budget and Taxation

More Local Tax Relief for Working Families Act of 2023

This bill increases, from 3.2% to 3.7%, the maximum income tax rate that a county may impose on Maryland taxable income beginning in tax year 2024. A county may set an income tax rate that is greater than 3.2% only on Maryland taxable income that is in excess of two times the applicable maximum State income tax bracket threshold. Further, a county may not set an income tax rate that is greater than 3.2% for any income bracket without concurrently reducing the income tax rate applicable to the lowest income bracket, unless the county already applies the minimum allowable income tax rate (2.25%) to the lowest income bracket. **The bill takes effect June 1, 2023, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund expenditures increase by \$160,000 in FY 2024 only. Revenues are not affected.

| (in dollars) | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 |
|----------------|-------------|---------|---------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 160,000 | 0 | 0 | 0 | 0 |
| Net Effect | (\$160,000) | \$0 | \$0 | \$0 | \$0 |

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

Local Effect: Local revenues are potentially affected as early as FY 2024 to the extent that counties choose to alter income tax rates in accordance with the bill's authorization. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Local Income Tax

Each county and Baltimore City must impose a local income tax on the Maryland taxable income of its residents at a rate of at least 2.25% and up to 3.2%. Chapter 23 of the 2021 special session increased the minimum required local income tax rate from 1% to 2.25%.

Local income tax rates may be changed only by ordinance or resolution. A county may not increase its county income tax rate above 2.6% until the county has held a public hearing on the proposed rate increase, as specified. A county must notify the Comptroller of a rate or income bracket change (as discussed below) by July 1 prior to the change's effective date.

Exhibit 1 shows the county income tax rates for tax year 2022. As shown in the exhibit, 10 counties and Baltimore City impose the highest allowable county income tax rate of 3.2% for tax year 2022.

Additional information on local income tax rates and revenues can be found in the [County Revenue Outlook report](#).

Exhibit 1 **County Income Tax Rates** **Tax Year 2022**

| <u>County</u> | <u>Rate</u> | <u>County</u> | <u>Rate</u> |
|----------------------|--------------------|----------------------|--------------------|
| Allegany | 3.05% | Harford | 3.06% |
| Anne Arundel | 2.81% | Howard | 3.20% |
| Baltimore City | 3.20% | Kent | 3.20% |
| Baltimore | 3.20% | Montgomery | 3.20% |
| Calvert | 3.00% | Prince George's | 3.20% |
| Caroline | 3.20% | Queen Anne's | 3.20% |
| Carroll | 3.03% | St. Mary's | 3.10% |
| Cecil | 3.00% | Somerset | 3.20% |
| Charles | 3.03% | Talbot | 2.40% |
| Dorchester | 3.20% | Washington | 3.00% |
| Frederick | 2.96% | Wicomico | 3.20% |
| Garrett | 2.65% | Worcester | 2.25% |

Source: Comptroller's Office; Department of Legislative Services

Chapter 23 also authorized counties to impose the county income tax on a bracket basis. A county that imposes the county income tax on a bracket basis must set, by ordinance or resolution, the income tax brackets that apply to each income tax rate and may adopt income brackets that differ from the State income tax brackets. However, a county may not (1) set a minimum tax rate of less than 2.25% of Maryland taxable income or (2) apply an income tax rate to a higher income bracket that is less than the income tax rate applied to a lower income bracket. A county may request information from the Comptroller to assist the county in determining income brackets and applicable income tax rates that are revenue-neutral for the county.

Since the enactment of Chapter 23, Anne Arundel and Frederick counties have adopted bracket-based income tax rates for tax year 2023. Specifically, tax year 2023 income tax rates for Anne Arundel County are 2.70% of the first \$50,000 of Maryland taxable income and 2.81% of Maryland taxable income in excess of \$50,000. Tax year 2023 income tax rates for Frederick County are 2.75% for taxpayers with Maryland taxable income of up to \$50,000 (\$100,000 for joint filers, heads of household, and qualifying surviving spouses with dependent children) and 2.96% for all other taxpayers.

State Income Tax Rates

Exhibit 2 shows the State income tax brackets and corresponding income tax rates under current law.

Exhibit 2 **Maryland State Income Tax Rates**

| Single, Dependent, Married Filing Separately | | Joint, Surviving Spouse, Head of Household | |
|---|---------------------------------------|---|---------------------------------------|
| <u>Rate</u> | <u>Maryland Taxable Income</u> | <u>Rate</u> | <u>Maryland Taxable Income</u> |
| 2.00% | \$1-\$1,000 | 2.00% | \$1-\$1,000 |
| 3.00% | \$1,001-\$2,000 | 3.00% | \$1,001-\$2,000 |
| 4.00% | \$2,001-\$3,000 | 4.00% | \$2,001-\$3,000 |
| 4.75% | \$3,001-\$100,000 | 4.75% | \$3,001-\$150,000 |
| 5.00% | \$100,001-\$125,000 | 5.00% | \$150,001-\$175,000 |
| 5.25% | \$125,001-\$150,000 | 5.25% | \$175,001-\$225,000 |
| 5.50% | \$150,001-\$250,000 | 5.50% | \$225,001-\$300,000 |
| 5.75% | Excess of \$250,000 | 5.75% | Excess of \$300,000 |

Source: Comptroller's Office; Department of Legislative Services

State Expenditures: The Comptroller's Office advises that the local income tax bracket structure contemplated by the bill necessitates one-time changes to the Comptroller's tax systems at an estimated cost of \$160,000. Despite the bill's June 1, 2023 effective date, it is assumed that these costs are delayed to fiscal 2024. Thus, general fund expenditures for the Comptroller's Office increase by an estimated \$160,000 in fiscal 2024 only.

Local Revenues: As discussed above, the bill authorizes counties to impose local income tax rates that exceed the current maximum rate (3.2%) on Maryland taxable income that is in excess of two times the applicable maximum State income tax bracket threshold (which, under current law, equates to \$500,000 for single filers, dependent filers, and married individuals filing separately and \$600,000 for joint filers, surviving spouses, and heads of household). However, counties may not set an income tax rate that is greater than 3.2% for any income bracket without concurrently reducing the income tax rate applicable to the lowest income bracket, unless the minimum allowable rate (2.25%) is already applied to the lowest income bracket.

Thus, local income tax revenues are potentially affected to the extent that counties elect to modify local income tax rates in accordance with the bill's authorization. However, any such effect cannot be reliably predicted, as it depends on the policy decisions of local governments. To the extent that local governments opt to increase income tax rates above 3.2% of Maryland taxable income for specified higher income brackets, resulting revenue increases are potentially offset by reduced tax rates for lower income brackets.

Small Business Effect: Small business partnerships, S corporations, limited liability companies, and sole proprietorships may be impacted to the extent local governments alter county income tax rates in accordance with the bill's authorization. To the extent that counties increase local income tax rates above 3.2% for specified higher-income brackets, the bill may result in higher net income tax liabilities for some affected small business taxpayers. Similarly, the bill may result in lower net income tax liabilities for some affected small business taxpayers to the extent that the bill results in concurrent reductions in income tax rates for lower income brackets.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 142 (Delegate Palakovich Carr) - Ways and Means.

Information Source(s): Baltimore, Charles, and Howard counties; Baltimore City; Comptroller's Office; Department of Legislative Services

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js/hlb

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