

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 70

(Senator Rosapepe)

Budget and Taxation

County Income Tax - Rate and Income Brackets - Alterations

This bill increases the maximum income tax rate a county may impose on Maryland taxable income from 3.2% to 3.7% beginning in tax year 2027. A county may set an income tax rate greater than 3.2% only on Maryland taxable income in excess of \$250,000 (\$300,000 for joint filers, surviving spouses, and heads of household). It is the intent of the General Assembly that a county that imposes an income tax rate exceeding 3.2% of Maryland taxable income utilize the revenue attributable to the tax rate in excess of 3.2% for the funding of public education and transportation. Additionally, the bill requires certain income bracket thresholds for a county that imposes the county income tax on a bracket basis; however, a county may apply the same income tax rate to more than one income bracket. **The bill takes effect July 1, 2026, and applies to tax year 2027 and beyond.**

Fiscal Summary

State Effect: It is assumed that the Comptroller's Office can implement the bill's changes with existing budgeted resources. Revenues are not affected.

Local Effect: Local revenues are potentially affected as early as FY 2027 to the extent counties alter income tax rates in accordance with the bill's authorization. It is assumed that counties with bracket-based income tax rates can conform to the bill's required income bracket thresholds in a revenue-neutral manner. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A county that imposes the county income tax on a bracket basis must set the income bracket thresholds as shown in **Exhibit 1**. A county may not set more than eight income brackets for each of the two filing status groups shown below.

Exhibit 1 Required Income Bracket Thresholds for Bracket Basis Counties

Single, Dependent, Married Filing Separately	Joint, Surviving Spouse, Head of Household
<u>Maryland Taxable Income</u>	<u>Maryland Taxable Income</u>
\$1-\$25,000	\$1-\$50,000
\$25,001-\$50,000	\$50,001-\$75,000
\$50,001-\$100,000	\$75,001-\$150,000
\$100,001-\$250,000	\$150,001-\$300,000
\$250,001-\$500,000	\$300,001-\$600,000
\$500,001-\$750,000	\$600,001-\$850,000
\$750,001-\$1,000,000	\$850,001-\$1,250,000
Excess of \$1,000,000	Excess of \$1,250,000

Source: Department of Legislative Services

Current Law: 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% and 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 set a minimum tax rate of less than 2.25% or 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 income tax rates that are revenue-neutral for the county.

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 by July 1 prior to the change's effective date.

Exhibit 2 shows the county income tax rates for tax year 2024. As shown in the exhibit, 10 counties and Baltimore City impose the highest allowable county income tax rate of 3.2% for tax year 2024, and two counties (Anne Arundel and Frederick counties) have adopted bracket-based income tax rates for tax year 2024. Additional information on local income tax rates and revenues can be found in the [County Revenue Outlook report](#).

Exhibit 2
County Income Tax Rates
Tax Year 2024

<u>County</u>	<u>Rate</u>	<u>County</u>	<u>Rate</u>
Allegany	3.03%	Harford	3.06%
Anne Arundel	* See below	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	3.00%
Cecil	2.75%	Somerset	3.20%
Charles	3.03%	Talbot	2.40%
Dorchester	3.20%	Washington	2.95%
Frederick	* See below	Wicomico	3.20%
Garrett	2.65%	Worcester	2.25%

* Anne Arundel County: For single filers, married individuals filing separately, and dependent filers, the tax year 2024 local income tax rates are 2.70% of Maryland taxable income of \$1 through \$50,000; 2.81% of Maryland taxable income of \$50,001 through \$400,000; and 3.20% of Maryland taxable income over \$400,000. For joint filers, heads of household, and qualified surviving spouses, the tax year 2024 local income tax rates are 2.70% of Maryland taxable income of \$1 through \$75,000; 2.81% of Maryland taxable income of \$75,001 through \$480,000; and 3.20% of Maryland taxable income over \$480,000.

* Frederick County: For single filers, married individuals filing separately, and dependent filers, the tax year 2024 local income tax rates are 2.25% for taxpayers with Maryland taxable income between \$1 and \$25,000 (inclusive); 2.75% for taxpayers with Maryland taxable income between \$25,001 and \$50,000 (inclusive); 2.96% for taxpayers with Maryland taxable income between \$50,001 and \$150,000 (inclusive); and 3.20% for taxpayers with Maryland taxable income of \$150,001 or more. For joint filers, heads of household, and qualified surviving spouses, the tax year 2024 local income tax rates are 2.25% for taxpayers with Maryland taxable income between \$1 and \$25,000 (inclusive); 2.75% for taxpayers with Maryland taxable income between \$25,001 and \$100,000 (inclusive); 2.96% for taxpayers with Maryland taxable income between \$100,001 and \$250,000 (inclusive); and 3.20% for taxpayers with Maryland taxable income of \$250,001 or more.

Source: Comptroller's Office; Department of Legislative Services

Nonresidents who are subject to the State income tax but are not subject to the county income tax are subject to the special nonresident tax at a rate equal to the lowest county income tax rate in Maryland (currently 2.25%).

Exhibit 3 shows the State income tax brackets and corresponding income tax rates under current law.

Exhibit 3
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

Local Revenues: The bill authorizes counties to impose local income tax rates that exceed the current maximum rate (3.2%) on Maryland taxable income in excess of \$250,000 (\$300,000 for joint filers, qualified surviving spouses, and heads of household). Thus, local income tax revenues are potentially affected as early as fiscal 2027 to the extent counties elect to modify local income tax rates in accordance with the bill’s authorization. Any such effect cannot be reliably predicted, as it depends on the policy decisions of local governments.

The bill also prescribes income bracket thresholds for counties that impose the county income tax on a bracket basis; however, a county may apply the same income tax rate to more than one income bracket. To date, two counties (Anne Arundel and Frederick counties) have adopted bracket-based income tax rates. For purposes of this analysis, it is assumed that these counties can conform their income tax brackets to the bill’s requirements in a revenue-neutral manner with assistance from the

Comptroller's Office. The bill's requirements relating to county income tax brackets are not otherwise expected to affect local revenues.

Small Business Effect: Small business partnerships, S corporations, limited liability companies, and sole proprietorships are potentially affected to the extent local governments alter county income tax rates or brackets in accordance with the bill's provisions. The bill may result in higher net income tax liabilities for some small business taxpayers to the extent counties increase local income tax rates above 3.2% for specified income brackets; similarly, the bill may result in lower net income tax liabilities for some small business taxpayers to the extent such rate increases are accompanied by concurrent reductions in income tax rates at lower income brackets.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 151 (Delegate Palakovich Carr) - Ways and Means.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Maryland Department of Transportation; Baltimore, Frederick, and Prince George's counties; Maryland Association of Counties; Department of Legislative Services

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