

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 614

(Chair, Ways and Means Committee)(By Request -
Office of the Comptroller)

Ways and Means

Local Earned Income Tax Credit - Calculation - County Income Tax Rate

This bill specifies that the county income tax rate used to calculate the local earned income tax credit is the county’s lowest marginal income tax rate for the tax year. **The bill takes effect July 1, 2025, and applies to tax year 2025 and beyond.**

Fiscal Summary

State Effect: The Comptroller’s Office can implement the bill’s changes with existing budgeted resources. Revenues are not affected.

Local Effect: It is assumed that the bill is largely clarifying in nature and does not directly affect local income tax revenues, as discussed below. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: A taxpayer who is eligible for the State earned income tax credit may claim a nonrefundable credit against the county income tax in an amount equal to the federal earned income credit allowed for the tax year (or that would be allowed but for certain federal minimum age or identification requirements) multiplied by 10 times the county income tax rate. Additionally, a county may provide, by law, for a refundable county earned income credit equal to the federal earned income credit allowed for the tax year (or that would have been allowed but for the federal minimum age or identification requirement) multiplied by 5 times the county income tax rate. To date, no county has provided for a refundable local earned income tax credit.

Chapter 23 of the 2021 special session authorized counties to impose the county income tax on a bracket basis. However, absent conforming changes to the provisions governing the calculation of the local earned income tax credit, the statute is unclear as to the county income tax rate that should be used to calculate the credit for a resident of a county that has adopted bracket-based income tax rates.

To date, only Anne Arundel County has adopted bracket-based marginal income tax rates; for tax year 2025, the county imposes a bottom marginal income tax rate of 2.70% on the first \$50,000 of Maryland taxable income (\$75,000 for joint filers, heads of household, and qualified surviving spouses). Per the Comptroller's resident income tax return instructions for tax years 2023 and 2024, Anne Arundel County residents must calculate the amount of the local earned income tax credit using the county's bottom marginal income tax rate of 2.70%. Thus, the bill's change codifies the Comptroller's current practice with respect to Anne Arundel County residents.

Frederick County, on the other hand, has adopted a flat income tax rate schedule with rates that vary based on income level. For tax year 2025, Frederick County residents with Maryland taxable income of up to \$25,000 are subject to the minimum allowable county income tax rate of 2.25%. Frederick County residents calculate the amount of the local earned income tax credit using the county income tax rate that otherwise applies to them, and it is assumed that the bill's change does not affect the calculation of the credit for residents of Frederick County or any other county that adopts a similar flat rate schedule.

Local Revenues: For purposes of this analysis, it is assumed that the bill is largely clarifying in nature and conforms the statute to the existing practice and, thus, does not directly affect local income tax revenues. However, the Department of Legislative Services notes that, to the extent additional counties adopt bracket-based marginal income tax rates, the structuring of income brackets may have the effect of reducing the amount of the local earned income tax credit relative to the county income tax for some taxpayers – specifically, if affected taxpayers are subject to an average county income tax rate that is greater than the lowest marginal county income tax rate. Given the tax year 2025 income brackets for Anne Arundel County and income eligibility limits for the earned income tax credit, it is assumed that the value of the local earned income tax credit for eligible Anne Arundel County residents generally is not affected for tax year 2025. It is also assumed that counties that adopt bracket-based marginal income tax rates can structure brackets and rates in a manner that is revenue neutral and/or preserves the value of the local earned income tax credit for affected taxpayers.

Additional Information

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

Designated Cross File: None.

Information Source(s): Comptroller's Office; Baltimore, Frederick, and Montgomery counties; Department of Legislative Services

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rh/jrb

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