



Senate Bill 133

Local Tax Relief for Working Families Act of 2021

MACo Position: **SUPPORT
WITH AMENDMENTS**

To: Budget and Taxation Committee

Date: January 26, 2021

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** SB 133's flexibility in tailoring local revenue structures to serve and react to community needs **WITH AMENDMENTS** to guard against unintended consequences for counties eligible for state aid under the disparity grant program.

In general, MACo stands for local self-determination. Counties, led by their elected leaders who are directly accountable within the community, are in the best position to make decisions on local affairs – ranging from land use to fiscal matters. SB 133 provides counties with the proper tools and flexibility to levy the local income tax with greater equity and fairness.

This bill authorizes counties to impose the local income tax on a bracket basis and raises the maximum rate from 3.2% to 3.5% for specified taxpayers. Under the bill, a county that chooses to impose the local income tax on a bracket basis must set, by ordinance or resolution, the income brackets that apply to each tax rate and inform the Comptroller by July 1 prior to the year in which a new bracket is established. Further, a county may apply a higher or equal tax rate to a higher income bracket than a rate applied to a lower income tax rate but may not apply a lower rate. Finally, a county may request data from the Comptroller to assist in determining rates that are revenue neutral.

The disparity grant program promotes fiscal equity by providing noncategorical state aid to less affluent counties with proven local income tax effort. The program serves to ensure that counties, who rely on local income taxes for substantial revenue, are able to generate sufficient yield to fund schools, public health, public safety, roadway maintenance, and community services.

The disparity grant formula is calculated based on local income tax rates, whereby less affluent counties with a maximum local income tax rate of 3.2% receive an additional tier of state aid. Counties have made difficult tax rate decisions based on the state law governing these grants – to undermine them would be especially untoward even during times of mutual fiscal strain. Accordingly, MACo insists that the State continues to recognize 3.2% as the required county income tax rate to establish eligibility for the “high effort” tier of the disparity grant program.

This bill provides counties with flexible and optional tools to serve and react to local needs and priorities. For these reasons, MACo **SUPPORTS** SB 133 **WITH AMENDMENTS** to ensure the State maintains its commitment to the disparity grant program.