



Montgomery County

Office of Intergovernmental Relations

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SB 133

DATE: January 22, 2021

SPONSOR: Senator Rosapepe

ASSIGNED TO: Budget and Taxation

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POSITION: Support

Local Tax Relief for Working Families Act of 2021

Senate Bill 133 authorizes an increase in the top local income tax rate from 3.2% to 3.5% after tax year 2021 for individual and joint filers with Maryland taxable income greater than \$500,000 and \$600,000, respectively, and increases the lowest rate allowed from 1% to 2.25%. The bill also allows counties, after tax year 2021, to apply tax rates on a bracket basis; however, applying lower rates on higher income tax brackets than rates applied to lower income tax brackets is prohibited.

Currently, counties do not have the opportunity to create a progressive local income tax system. By State law, a county is allowed to set one rate, between 1% and 3.2%. That single local rate is applied against a taxpayer's taxable income. The State rates vary and they are applied on a bracket basis. So, as taxable income increases, rates increase, making the State's system progressive. Senate Bill 133 would allow counties that would like to create greater progressivity in their local income tax structures the ability to do so. For counties whose rates are below the current maximum rate of 3.2%, various options exist to create a more progressive system, including one that could be revenue neutral. However, for counties whose local income tax rates are already at the maximum, creating a more progressive system will result in a loss of revenue unless the current top rate of 3.2% is increased. Senate Bill 133 addresses that problem by establishing a maximum rate of 3.5%, which may only be applied at very high-income levels.

Montgomery County supports Senate Bill 133. It is an important tool that would allow Montgomery County to introduce greater progressivity in the application of its local income tax – and not necessarily as a license to raise taxes and generate new revenue. Progressive systems of taxation have always been a core principal of creating a fair and equitable system of taxation. This bill reflects that core value and for that reason, the County respectfully request that the Senate Budget and Tax Committee advance Senate Bill 133.