MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Increasing Local Fiscal Autonomy Will Support Vital County and City Investments

Position Statement in Support of Senate Bill 133

Given before the Senate Budget and Taxation Committee

All Marylanders depend on an effective state revenue system that can support bedrock investments such as education, health care, and transportation. Just as importantly, effective local revenue systems are vital for the essential services counties, municipalities, and Baltimore City provide. The Maryland Center on Economic Policy supports Senate Bill 133 because it would expand the range of options available to local policymakers to raise to maintain effective and equitable revenue systems.

Because the state and local governments work together to provide foundational services such as education and public health, local governments face many of the same costs that drive the state's revenue needs. Yet local jurisdictions have much less latitude to set fiscal policy that fits their individual context and needs. Today, the statewide cap on county income tax rates prevents half of Maryland counties (including Baltimore City) from generating additional revenue from this source. Senate Bill 133 would increase local policymakers' flexibility to match their revenue policies to their residents' needs.

The local income tax is counties' second-most important stream of own-source revenue after the real property tax. It is also the most equitable local revenue source. Because landlords are able to pass property taxes through to tenants in the form of higher rent, property taxes can place disproportionate tax responsibilities on families with low incomes. Families with income below $24,000 pay a larger share of their income in property taxes than any other income group, while those with annual family income between $44,000 and $120,000 face above-average property tax responsibilities.[i] Meanwhile, the wealthiest 1 percent of households pay a smaller share of their income in property taxes than any other income group. In contrast, the local income tax help balance local revenue systems by asking more of the individuals with the greatest ability to pay.

Strong evidence tells us that asking the wealthiest individuals to contribute to the services we all rely on is consistent with a vibrant economy:

- The bulk of empirical research finds little link between state tax policy and where people want to live.[ii] This is consistent with common sense: For most of us, factors like good jobs, affordable housing, great schools, pleasant weather, and being close to relatives are far more important than tax rates.
- Careful research also shows that wealthy individuals relocate less often than other families, and that taxes aren't an economically important driver of where they settle down.[iii] This, too, is little surprise: Uprooting your life to reduce your tax responsibilities may not be an attractive option if you have invested time and money in a good job, a business, or a comfortable home, or if you are embedded in your community's civic life.

As Marylanders consider the major state and local investments we will need to strengthen the foundations of our economy in future years—from world-class schools to high-quality health care—we should ensure that local policymakers have sufficient flexibility to raise the revenue needed to support high-quality services. This is especially important in light of the above-average education funding responsibilities that may soon face jurisdictions that currently have limited tax policy options. Senate Bill 133 would strengthen local governments' ability to invest in essential services while making their tax codes more equitable.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make a favorable report on Senate Bill 133.

Equity Impact Analysis: Senate Bill 133

Bill summary

Senate Bill 133 enables counties and Baltimore City to levy graduated income taxes and increases the maximum tax rate from 3.2 percent to 3.5 percent.

Equity Implications

Senate Bill 133 would bring significant equity benefits:

- Expanding local revenue policy options would strengthen local governments' ability to invest in things like world-class schools, reliable transportation infrastructure, and a good quality of life. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.
- Today, the wealthiest 1 percent of Maryland households pay a smaller share of their income in state and local taxes than the rest of us do. Senate Bill 133 would make our tax code more balanced by granting local governments greater latitude to raise revenue in the most equitable manner available to them.
- The Kirwan Commission recommendations have the potential to strengthen economies across Maryland in the coming decades. In the short term, it is important to ensure every county can generate the revenue needed to invest in schools. This has especially great equity implications because the local jurisdictions facing the greatest additional funding responsibilities are also the state's only two majority-Black county equivalents and currently have among the most underfunded public schools in the state.

Impact

Senate Bill 133 would likely **improve racial and economic equity** in Maryland.

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[i] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf
Maryland-specific data available at https://itep.org/whopays/maryland/

[ii] Michael Mazerov, "State Taxes Have a Negligible Impact on Americans' Interstate Moves," Center on Budget and Policy Priorities, 2014, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-negligible-impact-on-americans-interstate-moves

[iii] Cristobal Young, Charles Varner, Ithai Lurie, and Richard Prisinzano, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," *American Sociological Review 81*(3), 2016, https://web.stanford.edu/~cy10/public/Jun16ASRFeature.pdf
See also Cristobal Young, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich*, Stanford: Stanford University Press, 2018