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THE MARYLAND HOUSE OF DELEGATES
Annapolis, Maryland 21401

# Testimony in Support of HB 319
# Local Tax Relief for Working Families Act of 2021

This bill is enabling legislation that would authorize local governments to create local income tax brackets. State law currently requires local governments to have one flat income tax rate, even though our state income taxes are tiered based on taxpayers' annual income.

This enabling legislation would provide more autonomy to Maryland's 23 counties and the City of Baltimore regarding their tax structures. By creating multiple tax brackets, a county would have the option to provide tax relief to low- and middle-income residents in a revenue neutral way. The bill would also give counties a tool to raise additional revenue from those who can best afford it in order to address budget deficits.

The bill would also increase the top local income tax rate from 3.2% to 3.5%. Currently, 11 counties plus the City of Baltimore are using the maximum rate.[1] Maryland's current cap of 3.2% has not been changed since 2001.

No county would be required to enact local income tax brackets or to increase their tax rate. Every county would retain their current flat income tax unless they choose to act.

This is a reintroduction of a bill that passed the House of Delegates in 2020.

**Why This Bill is Needed Now**

It is more important now than ever that local governments use taxes not just as a tool to raise revenue, but to foster tax structures that are fair for their residents across racial and socioeconomic backgrounds. The flat local income tax rate that currently exists in state law is regressive in nature. As counties look at ways to close looming deficits resulting from the COVID-19 pandemic, any increase in a flat tax rate would fall hardest on those taxpayers who are most disadvantaged.

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[1] Baltimore City and Baltimore, Caroline, Dorchester, Howard, Kent, Montgomery, Prince George's, Queen Anne's, Somerset, Washington, and Wicomico.

The pandemic has made it even more clear that Marylanders live in two separate economic realities: one with high wage earners working remotely and out of reach from the virus, and another with low-wage earners working at its frontlines.  A recent study from Harvard and Brown Universities found that wealthy Americans are largely insulated from the recession and have experienced a V-shaped recovery, while low-income workers face an outsized share of employment losses.[2]  It is not fair that these low-wage workers have to pay a greater share of their income in local income taxes than millionaires do.[3]

With local governments facing budget shortfalls to the tune of hundreds of millions of dollars, many will have to get creative in raising revenues.  If counties are not granted the authority to raise revenue with progressive income tax rates, then they will have to meet deficits with steep cuts to funding for schools, infrastructure, and public services in order to balance their budgets.

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[2] The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data." Chetty, R., et al. October 2020.
https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

[3] "Who Pays?  A Distributional Analysis of the Tax Systems in All 50 States."  Institute on Taxation and Economic Policy, October 2018.