MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

FEBRUARY 8, 2023

Increasing Local Fiscal Autonomy Will Support Vital County and City Investments

Position Statement in Support of Senate Bill 270

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 270** because it would expand the range of options available to local policymakers to maintain effective and equitable revenue systems.

Because the state and local governments work together to provide foundational services such as public health and education, 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 nearly half of Maryland counties from generating additional revenue from this source. Senate Bill 270 would increase local policymakers' flexibility to match their revenue policies to their residents' needs by levying a higher tax rate on only extremely wealthy residents, while in most cases simultaneously lowering their bottom income tax rate.

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% of households pay a smaller share of their income in property taxes than any other income group. In contrast, the local income tax helps 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 the era of explosive state and local revenue growth draws to an end, we should ensure that local policymakers have sufficient flexibility to raise the revenue needed to support high-quality services. Senate Bill 270 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 Budget and Taxation Committee make a favorable report on Senate Bill 270.

Equity Impact Analysis: Senate Bill 270

Bill summary

Senate Bill 270 increases from 3.2% to 3.7% the maximum allowable county tax rate only for residents whose taxable income exceeds double the highest state income tax bracket. Under the current state tax brackets, the threshold would be $500,000 for single filers or $600,000 for joint filers. If the tax rate for the county's lowest income tax bracket exceeds 2.25% (the state minimum), the county may set a top rate greater than 3.2% only if it simultaneously decreases the bottom rate.

Equity Implications

Senate Bill 270 would bring significant equity benefits:

- Expanding local revenue policy options would strengthen local governments' ability to invest in things like public health, world-class schools, and reliable transportation infrastructure. Investing in these basics strengthens our economy and can dismantle the economic barriers that back Marylanders of color.
- Today, the wealthiest 1% of Maryland households pay a smaller share of their income in state and local taxes than the rest of us do. Senate Bill 270 would make our tax code more balanced by granting local governments greater latitude to raise revenue in the most equitable manner available to them.

Impact

Senate Bill 270 would likely **improve racial and economic equity** in Maryland.

---

[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