LETTER OF INFORMATION

Senate Bill 270 – More Local Tax Relief for Working Families Act of 2023
Budget and tax Committee
February 8, 2022

This bill increases to 3.7% the maximum county tax rate for taxable years beginning after December 31, 2023. A county may only impose a tax rate of over 3.2% on income that is two times the highest state bracket. Further, a county may only impose a rate higher than 3.2% without lowering the rate on the lowest bracket. The lowest rate is 2.25%.

The expected result of this legislation is that more counties will enact local tax brackets, as the bill creates a structure that will allow counties to enact bracketed tax regimes without losing revenue.

The absence of a predefined framework for how counties can determine the rules for applying a bracketed local income tax imposes an impossible administrative burden on the Comptroller. In the absence of any controls, the Comptroller may be required to develop and administer up to 23 different local tax bracket regimes. Based on the Comptroller's capabilities, we strongly urge the Committee to adopt the following alternative framework.

1. Limit the number of local income tax brackets to no more than (4) four, at set income thresholds for <u>all</u> counties (including any who may have previously opted-in without these restrictions). The number of brackets should be the <u>same for all counties</u>, be that 2, 3, or 4 brackets. The Comptroller requires no more than 4 separate rates in order to efficiently administer the bracketed local income tax.
The income thresholds listed below are *suggestions*. **The legislature, with input from the counties, is encouraged to set these thresholds at whatever levels they deem appropriate.** However, all counties that opt-in to the bracketed local income tax must have the same thresholds. For example:

Single, Married Filing Separate, and Dependent	Married Filing Joint, Head of Household, and Qualifying Widow(er) with Dependent Child	
Taxable net income	**Taxable net income**	**Taxed at this rate (determined separately by each county that opts-in):**
At least $0 but not over $50,000	At least $0 but not over $100,000	
Over $50,000 but not over $100,000	Over $100,000 but not over $200,000	

Over $100,000 but not over $150,000	Over $200,000 but not over $300,000	
Over $150,000	Over $300,000	

2. Each county that opts-in to local income tax brackets could set their own rate, withing the statutory limits, for each bracket. Choosing a single rate for multiple brackets would have the effect of widening the bracket at the selected rate in that county. For example:

Single, Married Filing Separate, and Dependent	Married Filing Joint, Head of Household, and Qualifying Widow(er) with Dependent Child	
Taxable net income	**Taxable net income**	**Taxed at this rate:**
At least $0 but not over $50,000	$0 and $100,000	2.25%
Over $50,000 but not over $100,000	$100,000 and $200,000	2.25%
Over $100,000 but not over $150,000	$200,000 and $300,000	3.70%
$150,000 and up	$300,000 and up	3.70%

Note: choosing the same rate for <u>all</u> brackets produces the same result as not opting-in to the local bracket framework. In a county that set the same rate for all brackets, all income would be taxed at that single local rate.

3. Bracketed local income tax shall be applied on a progressive basis. Income up to the maximum in the first bracket is taxed at the rate associated with that bracket. Income within the second bracket is taxed at the rate applicable to the second bracket, etc. For example, in the sample chart below, the first $50,000 for a single filer is taxed at 2.25%; income over $50,000 and up to $75,000 is taxed at 2.50%, etc.

Single, Married Filing Separate, and Dependent	Married Filing Joint, Head of Household, and Qualifying Widow(er) with Dependent Child	
Taxable net income	**Taxable net income**	**Taxed at this rate:**
$0 and $50,000	$0 and $100,000	2.25%
$50,000 and $100,000	$100,000 and $200,000	2.50%
$100,000 and $150,000	$200,000 and $300,000	3.00%
$150,000 and up	$300,000 and up	3.70%

4. The Comptroller estimates it needs 2 years to design and implement changes of this magnitude, given other existing priorities (e.g., cannabis, EIC expansion). We ask that it be made applicable to tax years beginning after December 31, 2024.

As always, the Comptroller's Office is willing and available to answer any questions you may have at your convenience. Please contact Justin Hayes, Director of State Affairs at jhayes@marylandtaxes.gov or 410-260-7696.