Julie Palakovich Carr
Legislative District 17
Montgomery County

Ways and Means Committee

The Maryland House of Delegates
6 Bladen Street, Room 202
Annapolis, Maryland 21401
410-841-3037 · 301-858-3037
800-492-7122 *Ext.* 3037
Julie.PalakovichCarr@house.state.md.us

THE MARYLAND HOUSE OF DELEGATES
Annapolis, Maryland 21401

Testimony in Support of HB 470
County Income Tax – Rate and Income Brackets – Alterations

This enabling legislation would provide counties with the ability to raise their local income tax rate on high income earners. This change is needed to allow more counties to cut local income taxes on low and moderate incomes in a revenue neutral way. Additionally, this bill would allow local governments to raise the money they need for public education and transportation.

In 2021, we enacted legislation to allow counties to create local income tax brackets that are tiered based on taxpayers' annual income. The purpose of that law was to move away from flat, regressive taxes and to allow counties to adopt multiple income brackets.

Anne Arundel and Frederick Counties have taken advantage of that new authority to provide targeted tax relief to working families. Anne Arundel County cut its tax rate for low-income residents and paid for the tax cut by increasing taxes on incomes above $400,000.[1] Frederick County created two new tax brackets for low and middle incomes, which received tax cuts; the change was paid for with a new bracket on upper incomes.[2]

A major barrier to more counties making use of this tax authority is the current 3.2% statutory cap on local income tax rates. The cap has not been changed since 2001. Presently, 13 of Maryland's counties are at the maximum allowed tax rate.[3]

Without this legislation, more than half of Maryland's counties will be unable to provide tax cuts without reducing county revenues, nor generate needed additional revenues through local income taxes.

This legislation allows counties to realize revenues above the current cap of 3.2% on high income earners in order to put that money toward their local share of the Blueprint for Maryland's Future and their local transportation needs. Fourteen counties were expected to

[1] Rate reduced from 2.81% to 2.7% for the first $50,000 of every taxpayer's income ($75,000 for joint filers); a new bracket at 3.2% was created on taxable income above $400,000 ($480,000 for joint filers)
[2] Rate reduced from 2.96% to 2.25% for taxpayers earning under $25,000 (single filers) and to 2.75% for taxpayers earning $25,000-$50,000 ($100,000 for joint filers), paid for by setting a 3.2% rate on taxpayers earning over $150,000 ($250,000 for joint filers).
[3] Anne Arundel, Baltimore City, Baltimore County, Caroline, Dorchester, Frederick, Howard, Kent, Montgomery, Prince George's, Queen Anne's, Somerset, and Wicomico.

increase local funding for public schools in FY 2023 over pre-Blueprint levels.[4] Looking ahead, DLS anticipates that 10 jurisdictions will incur a major fiscal impact in future years.

This is enabling legislation. Counties would retain their existing income tax structure unless they choose to make changes.

It is more important than ever that local governments use income 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 rates used by nearly all Maryland counties are regressive. As counties look at ways to provide tax relief to residents and make investments in education and transportation, flexibility with income tax brackets is key.

[4] https://dls.maryland.gov/pubs/prod/Educ/LocalFiscalImpactofImplementingtheBlueprintforMarylandsFuture.pdf