Increasing Local Fiscal Autonomy Will Support Vital County and City Investments

Position Statement in Support of House Bill 151

Given before the House Ways and Means Committee

All Marylanders depend on effective local revenue systems that can support bedrock county and municipal investments such as education, public health, and transportation. **The Maryland Center on Economic Policy supports House Bill 151** 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 many foundational services, local governments face many of the same costs that drive the state's revenue needs. Counties' education and transportation costs in particular are expected to mount in coming years. 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.[i] House Bill 151 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.

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 $30,000 pay a larger share of their income in property taxes than any other income group, while the wealthiest 1% of households (with annual income over $700,000) pay a smaller share of their income in property taxes than any other income group.[ii] 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.[iii] 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.[iv] 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 local governments across Maryland face rising costs, we should ensure that local policymakers have sufficient flexibility to raise the revenue needed to support high-quality services. House Bill 151 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 House Ways and Means Committee make a favorable report on House Bill 151.

Equity Impact Analysis: House Bill 151

Bill summary

House Bill 151 increases from 3.2% to 3.7% the maximum allowable county tax rate only for residents whose taxable income exceeds $250,000 for a single filer or $300,000 for a joint filers, and defines allowable boundaries for county income tax brackets. The bill includes intent language specifying that the additional revenue from a top rate above 3.2% be used to fund public education and transportation.

Equity Implications

House Bill 151 would bring significant equity benefits:

- Expanding local revenue policy options would strengthen local governments' ability to invest in things like 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. House Bill 151 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

House Bill 151 would likely **improve racial and economic equity** in Maryland.

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[i] For tax year 2025, 11 counties levy a flat 3.2% income tax. The cap also prevents Anne Arundel and Frederick counties from increasing their top rate, meaning that any additional income tax revenue would have to come in part from middle-income households.

[ii] "Maryland: Who Pays? 7th Edition," Institute on Taxation and Economic Policy, 2024, https://itep.org/whopays/maryland-who-pays-7th-edition/

[iii] Michael Mazerov, "State Taxes Have a Negligible Impact on Americans' Interstate Moves," Center on Budget and Policy Priorities, 2023, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves

[iv] 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