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**Testimony in Support of HB 151
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 and to raise money 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 tax 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, 15 of Maryland's 24 counties are at the maximum allowed tax rate,³ with Calvert and St. Mary's Counties having recently enacted a 3.2% rate for the 2025 tax year.

The bill sets uniform income tax brackets to provide the Comptroller—who oversees the administration of all county income tax regimes—with a level of uniformity and to ease

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, Calvert, Caroline, Dorchester, Frederick, Howard, Kent, Montgomery, Prince George's, Queen Anne's, St. Mary's, Somerset, and Wicomico.

implementation. Counties would not be required to utilize all of the tax brackets and could set whatever tax rate they choose for each bracket.⁴

Without this enabling legislation, nearly two-thirds of Maryland's counties will be unable to provide tax cuts without reducing county revenues, nor generate needed additional revenues through local income taxes.

⁴ As long as those rates are between 2.25% and 3.2%, or up to 3.7% on income exceeding the state's top bracket of \$250,000 (single filers) or \$300,000 (joint filers), and as long as the tax rate applied to any tax bracket does not exceed that of a higher tax bracket.