Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 844 (Delegates Summers and Cardin)
Ways and Means

County Income Tax - Maximum Rate for Individuals at Least 65 Years Old

This bill limits the maximum county income tax rate that may be imposed on an individual who is at least 65 years old and whose Maryland taxable income does not exceed $75,000. The county income tax rate imposed may not exceed (1) 3% in tax year 2015; 2.8% in tax year 2016; and 2.6% in tax year 2017 and beyond.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Significant increase in general fund expenditures beginning in FY 2015 due to implementation costs at the Comptroller's Office. Revenues are not affected.

Local Effect: Local income tax revenues may decrease by $3.3 million in FY 2015 and by $26.7 million in FY 2019 due to the lower maximum county income tax rates required by the bill. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background:

County Income Tax

The counties and Baltimore City are required to levy a local income tax on their residents. The tax is assessed as a percentage of the taxpayer's Maryland taxable income.

Counties are authorized to set a local income tax rate of at least 1% but not more than 3.2%. The tax rate is a flat rate, as counties are not authorized to impose the tax at different tax rates. Generally, each incorporated municipality shares in its county's income taxes by receiving a portion of the county income taxes paid by the municipality's residents.

Six local jurisdictions – Baltimore City and Howard, Montgomery, Prince George's, Queen Anne's, and Wicomico counties – are imposing the maximum income tax rate of 3.2% in tax year 2014. Worcester County has the lowest local income tax rate at 1.25%. The typical local income tax rate imposed for tax year 2014 is 2.9%.

Exhibit 1 shows the county income tax rates under current law.

Exhibit 1
County Income Tax Rates
Calendar 2014

County	Rate	County	Rate
Allegany	3.05%	Harford	3.06%
Anne Arundel	2.56%	Howard	3.20%
Baltimore City	3.20%	Kent	2.85%
Baltimore	2.83%	Montgomery	3.20%
Calvert	2.80%	Prince George's	3.20%
Caroline	2.73%	Queen Anne's	3.20%
Carroll	3.04%	St. Mary's	3.00%
Cecil	2.80%	Somerset	3.15%
Charles	3.03%	Talbot	2.40%
Dorchester	2.62%	Washington	2.80%
Frederick	2.96%	Wicomico	3.20%
Garrett	2.65%	Worcester	1.25%

The Comptroller's expenses that are necessary to administer the income tax are paid by distributions from State and local income tax revenues. These costs include the amounts necessary to administer the local income tax.

Elderly Tax Benefits

Maryland law provides a pension exclusion subtraction modification for individuals who are at least age 65 or who are totally disabled. Up to a specified maximum amount of taxable pension income ($27,800 maximum for 2013) may be exempt from tax. The maximum exclusion allowed is indexed to the maximum annual benefit payable under the Social Security Act and is reduced by the amount of any Social Security payments received. Military retirement income exempted under the subtraction modification cannot be counted toward the State pension exclusion.

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, even though they may be partly taxable for federal income tax purposes. In addition to the special treatment of Social Security and other retirement income, other income tax relief is provided to senior citizens regardless of the source of their income. In addition to the regular personal exemption available to all taxpayers, an additional exemption amount of $1,000 may be claimed by an elderly or blind individual.

State Expenditures: The Comptroller's Office reports that it will incur significant implementation costs beginning in fiscal 2015. The Comptroller's Office advises that joint filers do not currently report income separately, so one State and local rate is applied to the combined Maryland taxable income of a joint return. Under the bill, different tax rates will be applied to each spouse if one meets the qualifications of the bill and one does not. The Comptroller's Office estimates a one-time expenditure increase of $7.0 million in fiscal 2015, which includes $4.6 million for the necessary programming changes and $2.4 million to do a complete systems test. Programming changes include changes to the Comptroller's integrated tax system, electronic filing, Internet filing, compliance interfaces, and data warehouse modeling. Additional minimal one-time expenses for developing, printing, and distributing new forms and instructions would also be incurred. The Comptroller's Office also reports it will incur significant ongoing programming and processing costs and will need to hire six additional IT analysts and revenue specialists. As a result, general fund expenditures may increase by an additional $235,600 in fiscal 2015, $400,200 in fiscal 2016, $501,600 in fiscal 2017, $525,100 in fiscal 2018, and $549,900 in fiscal 2019.

Local Revenues: The bill limits the county income tax rate that may be imposed on an individual who is at least 65 years old and whose Maryland taxable income does not exceed $75,000. Only Worcester, Talbot, and Anne Arundel counties currently impose a local income tax rate of less than 2.6%.

The Comptroller's Office advises that the lack of data collected on Maryland taxable income for joint returns prevents a precise fiscal estimate of the impact on local income tax revenues. Based on limited data, the Comptroller's Office estimates that local income tax revenues will decrease by $3.3 million in fiscal 2015, $10.8 million in fiscal 2016, $20.6 million in fiscal 2017, $26.4 million in fiscal 2018, and $26.7 million in fiscal 2019.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510