

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 145
Ways and Means

(Delegate Miller, *et al.*)

County Income Tax - Transparency

This bill requires an annual State income tax withholding statement to separately list the amount of State and local income taxes withheld. Under current law, these annual statements list the aggregate amount of State and local income taxes withheld.

The bill applies to tax year 2011 and beyond.

Fiscal Summary

State Effect: None. This requirement will not affect the collection of State income tax revenues.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Federal law requires any person, including a corporation, partnership, individual, estate, and trust, who makes certain payments or reportable transactions during the calendar year to file information returns and report those transactions to the IRS. Persons required to file these returns to the IRS must also furnish statements to the recipients of the income.

Under State law, each employer or payor required to withhold State income taxes is also required to issue an annual withholding statement showing (1) the name of the employer or payor; (2) the name of the employee or person who receives the payment subject to

withholding; (3) the total amount of the wages or payment paid to the person; (4) the total amount of tips reported by the employee; (5) the total income tax withheld; (6) any amount by which income tax required to be withheld on tips exceeds the other net wages paid to the employee; and (7) any other information required by Comptroller regulations.

Background: Annual withholding statements are designed to improve tax compliance and assist individuals in preparing income tax returns. A common example is W-2 withholding statements issued by employers.

During the 1999 session, the General Assembly passed legislation (Chapter 493) that altered the method of calculating local income taxes from a percentage of the State tax liability to a flat county income tax rate applied to net taxable income. The legislation specified each county’s local income tax rate for calendar 1999 through 2002; however, the county tax rate after calendar 1999 could be altered by the county through an ordinance or resolution. Pursuant to the legislation, county income tax rates may range between 1% and 3.2%.

Over the last five years, local income tax rates have remained relatively stable, with the rates higher in one county (Allegany) and lower in another (St. Mary’s). Three counties – Howard, Montgomery, and Prince George’s – are now implementing an income tax rate of 3.2%, which is the maximum rate allowed by State law. Worcester County continues to have the lowest local income tax rate at 1.25%. The median local income tax rate for tax year 2009 was 2.9%. **Exhibit 1** shows actual State and local income tax receipts in fiscal 2008 and 2009 and estimated amounts for fiscal 2010 and 2011. In each year, the actual amount of revenues received by local governments may differ from the amount distributed to the local reserve account based on an analysis of tax returns filed.

Exhibit 1
State and Local Income Tax Revenues
Fiscal 2008-2011

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
State and Local Net Receipts	\$11,423,129	\$10,352,326	\$9,872,487	\$10,173,192
Local Reserve Account	4,481,227	3,873,349	3,748,639	3,862,818
Income Tax Checkoffs	1,769	1,820	2,000	2,000
Net General Fund	\$6,940,133	\$6,477,157	\$6,121,847	\$6,308,374

Source: Board of Revenue Estimates

The income tax is the third largest revenue source for county governments, accounting for 17.6% of total local revenues in fiscal 2007, excluding debt proceeds. Income taxes are the fourth largest revenue source for municipalities, accounting for 7.2% of total revenues in fiscal 2007. Municipal income taxes are calculated as 0.37% of Maryland taxable income or 17% of the county income tax liability for their residents, whichever is higher. While municipalities are not authorized to impose a local income tax, they do receive a portion of the county income tax revenues collected.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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