



Senate Bill 397

Local Income Tax Overpayments – Local Reserve Account Repayment – Forgiveness

MACo Position: **SUPPORT**

To: Budget and Taxation Committee

Date: February 15, 2017

From: Barbara Zektick

The Maryland Association of Counties (MACo) **SUPPORTS** SB 397. This bill repeals the requirement that local governments must reimburse the Local Income Tax Reserve Account for overpayments of local income tax revenue distributions made by the Comptroller. This bill allows for funds to be drawn from the Account, rather than local government budgets, to rectify errors for which they are not responsible.

MACo supports this bill because it alleviates local governments from bearing the burden for unpredicted liabilities due to no fault of their own. Such liabilities could potentially compromise a local government's ability to provide funds for needed programs and services.

Over this past year, due to an issue concerning misclassified addresses, the Comptroller's Office has identified \$21 million in local income tax revenues which were distributed to counties and municipalities incorrectly for tax years 2010-2014 - resulting in overpayments to some local governments and underpayments to others. Jurisdictions that were owed money received their payments within days. Under current law, due to the flexibility afforded by Senate Bill 766 which this Committee and the General Assembly passed last year, jurisdictions that owe money have until 2024 to begin repayment, and may then make the repayments in installments over a period of ten years. MACo appreciates the Comptroller's willingness to address this issue head-on, communicate proactively with local governments, and take action to avoid such mistakes from recurring – as well as this Committee's efforts to address these issues in a fair and balanced manner.

The Comptroller's Office uses the Local Income Tax Reserve Account to manage the cash flow of personal income tax payments and distributions to local governments. Counties and municipalities support this fund primarily with local government tax revenues. As MACo understands, neither the State nor local governments will suffer negative consequences from drawing upon these reserves to backfill the \$21 million that was over-distributed this year. Moreover, there is no reason to suspect that drawing upon this fund to rectify erroneous distributions in the future should result in any significant fiscal instability. As such, MACo supports drawing upon this fund for this purpose, as opposed to drawing upon funds in local government coffers, which are dedicated to providing core public services like public safety, education, and maintaining infrastructure.

For these reasons, MACo recommends a **FAVORABLE** report on SB 397.