MARYLAND Association of COUNTIES

Senate Bill 592

Income Tax - Subtraction Modification – Military Retirement Income

Senate Bill 594

Income Tax Subtraction Modification - Law Enforcement, Fire, Rescue, and Emergency Services Personnel (Hometown Heroes Act)

MACo Position: **OPPOSE**

To: Budget & Taxation Committee

Date: March 4, 2015

From: Andrea Mansfield

The Maryland Association of Counties (MACo) **OPPOSES** SB 592 and SB 594. While the specifics vary, these bills each would expand or create income tax subtraction modifications for various classes of retirees. In each case, the bills not only deplete state revenues, but also reduce county income taxes – without any local action or input. Counties believe that incentives and reductions in local tax rates or bases should be a local decision, and MACo resists proposals that automatically effect such changes across each county.

MACo has supported legislation in the past to provide broad authority to enact tax incentives for economic development and tax relief purposes and recognizes the value in doing so. However, counties would prefer approaches that provided local autonomy to determine the best way to provide these incentives, rather than those that mandate reductions in local revenue sources.

The attached statement further explains MACo's position on these and other similar proposals and its preference that State proposals affecting local revenue sources be enacted as a "local option." This approach would give counties maximum flexibility to achieve local goals.

According to the bills' fiscal notes, local income tax revenue declines could approach $22 million annually when fully phased-in. This is a substantial revenue loss to be shared by the counties. When combined with other potential revenue challenges, that effect could present substantial budget difficulties. Given current fiscal constraints and economic realities, these bills are simply not affordable as a statewide county mandate.

While there are signs of economic recovery both nationwide and in Maryland, these effects are not consistent across regions of the state, and won't even appear in the counties' top revenue source (property taxes) for years due to assessment cycles, phase-ins, and mandated tax credits. Counties are also feeling substantial pressure from federal budget uncertainties and potential changes in out-of-state income taxation.

State fiscal decisions compound these issues. A year after formula funding was restored and additional funding provided for some programs, the Governor's proposed FY 2016 budget seeks to roll back virtually all of these increases, sending distributions in most areas of direct aid to county governments back toward the deepest levels of the "great recession." Reductions in education funding will also place enormous increased pressure on the counties to provide dollars for public schools. Legislation that further reduces county revenues would make it substantially more difficult for counties to manage their budgets to provide needed services.

Counties welcome the chance to work with state policymakers to develop flexible and optional tools to create broad or targeted tax incentives, but resist state-mandated changes that preclude local input. For these reasons, MACo urges the Committee to give SB 592 and SB 594 an **UNFAVORABLE** report.