



Senate Bill 766

Local Income Tax – Overpayments, Underpayments, and Wynne Repayments - Local Reserve Account Repayment

MACo Position: **SUPPORT**

To: Ways and Means Committee

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From: Michael Sanderson

The Maryland Association of Counties (MACo) **SUPPORTS** SB 766. This bill establishes a process to reconcile local income tax distributions when a county or municipality receives an underpayment or overpayment of those distributions. If a jurisdiction is reimbursing the Comptroller's Office pursuant to the Wynne Case (*Maryland State Comptroller of the Treasury v. Brian Wynne*) as required by Chapter 489, Acts of 2015, repayments would begin after final payments associated with this case. The bill also adjusts the timetable for county repayment of the Wynne tax refunds, to better allow planning and absorption into county budgets.

Under current law, the local income tax reserve account (account) is used to manage income tax payments and distributions to counties and municipalities, but there is not one set process to address the under payment or over payment of local income tax distributions. Two situations recently brought this issue to light, the Wynne Case mentioned above and an inquiry of local income tax distributions in Montgomery County. SB 766 has been introduced to address the recent situation in Montgomery County, but also specifies a set process to be followed should underpayments and overpayments occur in the future.

In the case of an underpayment, the Comptroller would initially pay the amount due to the county or municipality from the account. If a county or municipality received an overpayment, the jurisdiction is required to reimburse the account, but if it does not do so timely, the Comptroller is required to withhold the amount from the quarterly distributions paid to the jurisdictions in 20 equal installments.

MACo believes the process outlined in the bill would enable counties to sufficiently manage their budgets in either situation, but most importantly it protects a county from large repayments that may affect its ability to provide funds for needed programs and services.

To address the *Wynne* Case, a repayment provision was included in the Budget Reconciliation and Financing Act of 2015 (Chapter 489, Acts of 2015) which spread the repayment of local income tax

credits to the State over multiple quarterly distributions. Senate amendments, driven by bill testimony, also respond to these looming pressures, and adjust that timetable to replenish the reserve fund. The revised schedule would more realistically use 20 quarterly repayments, lessening the abrupt “cliff effect” that could otherwise be felt by county budgets as these refunds are absorbed locally.

Accordingly, MACo urges the Committee to give SB 766 a **FAVORABLE** report to establish a set process to address the under payment or over payment of local income tax distributions, and to reasonably adjust the resolution of this series of one-time tax refunds.