Income Tax and Sales Tax

Presentation to the
Task Force to Modernize County and Municipal Revenue Structures



October 30, 2026

Local Income Tax

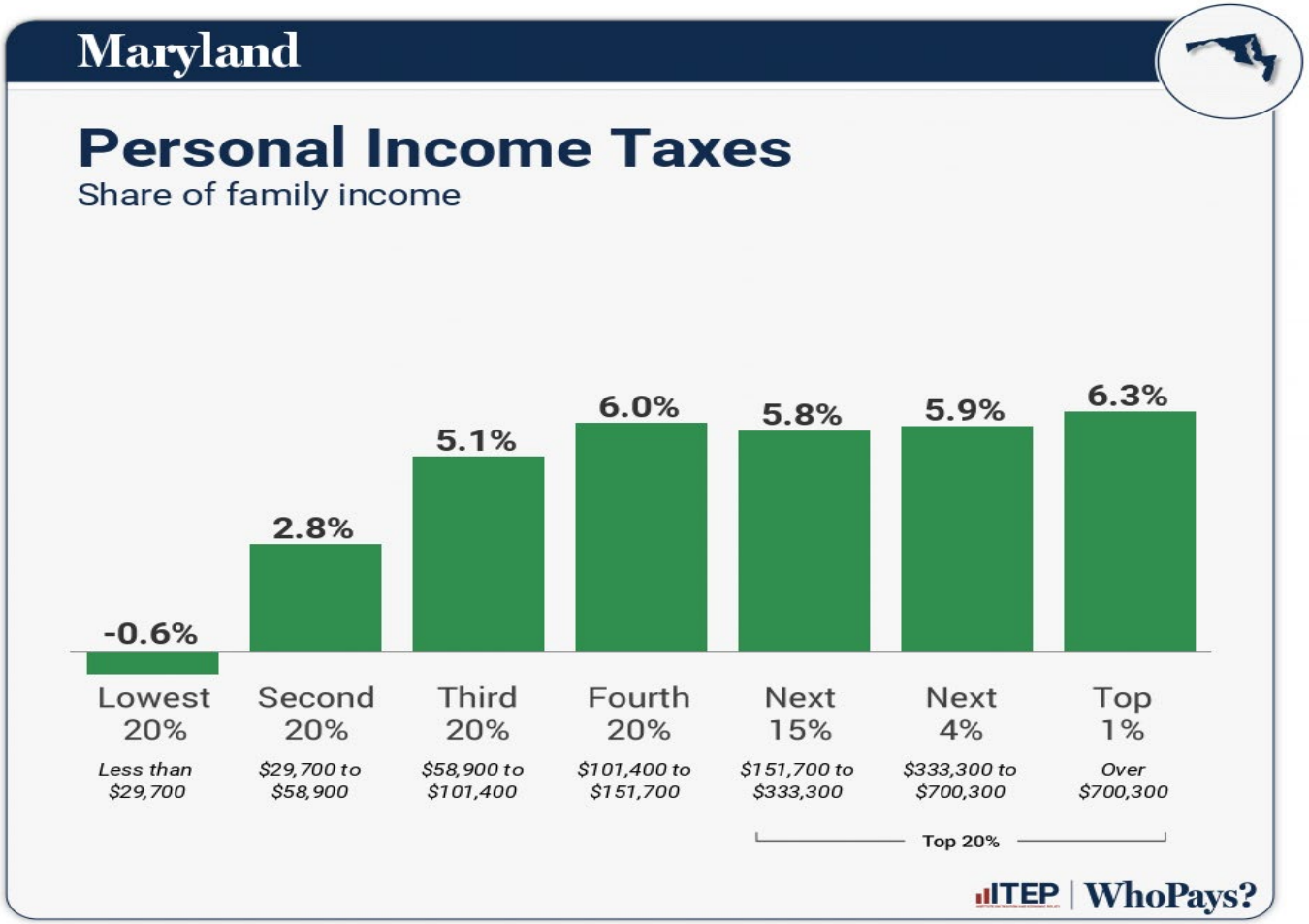
- 15 states authorize a local income tax in some form.
- The tax is imposed in over 5,000 jurisdictions nationwide.
- Income tax accounts for 5% of local revenue nationally.
- In six states, income tax is an important source of local revenue: Indiana, Kentucky, Maryland, New York, Ohio, and Pennsylvania

Source: Tax Foundation

Maryland Local Income Tax

- Income tax is a more important part of the local revenue structure in Maryland than in any other state.
- According to data from the Tax Foundation, local income tax accounts for a higher percentage of adjusted gross income and local tax collections in Maryland than in any other state.
- Maryland's maximum local income tax rate is also among the highest nationally. Higher local rates exist in New York, Oregon, and Pennsylvania.
- Municipalities receive a portion of county income tax revenues collected, based on the greater of either 0.37% of the Maryland taxable income of municipal residents or 17% of the county income tax liability of municipal residents.

Distribution of Tax Burden



Considerations for Local Income Tax

- Counties could be authorized to impose a higher income tax rate.
- Counties can impose the income tax in a progressive manner using graduated rates.
- If the maximum local income tax rate is increased, more counties could implement progressive income tax rates without losing revenue.
- Maryland's combined State and local income tax rates are relatively high compared with other states.
- The statutory formula could be altered to provide a greater share of county income tax revenue to municipalities.
- Counties would lose revenue if a greater share of county income tax revenue is directed to municipalities.

Local Sales Tax

- 38 states allow local sales taxes.
- Sales tax accounts for 13% of local revenue nationally.
- Maximum local sales tax rates range from 0.5% in Hawaii to 11% in Alabama.
- According to a ranking of combined state and local sales tax rates by the Tax Foundation, Maryland ranks 38th nationally for its sales tax rate.

Source: Tax Foundation

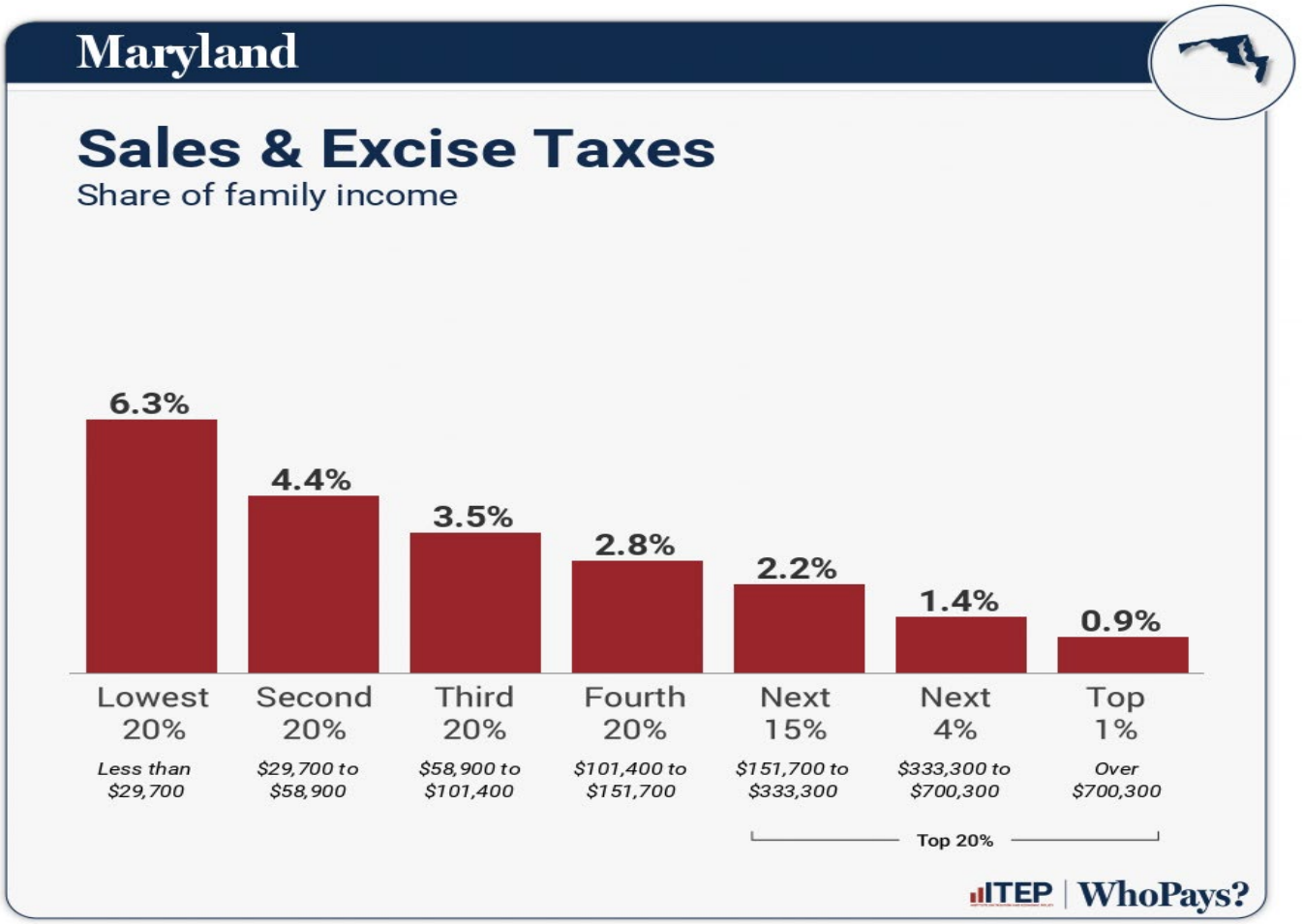
Regressivity of the Sales Tax

- The sales tax is regressive, as lower-income individuals must spend a larger portion of their income on necessities than higher-income individuals, who can afford to save and invest more.

- In addition, Maryland's sales tax is imposed primarily on goods rather than services. Lower-income people spend more on goods, while higher-income people spend more on services.

- The Institute on Taxation and Economic Policy (ITEP) ranks Maryland 41st among states in the regressivity of its State and local tax system, due largely to its high reliance on a progressive income tax and low reliance on a regressive sales tax.

Distribution of the Tax Burden



Reducing Property Taxes Through a Local Sales Tax

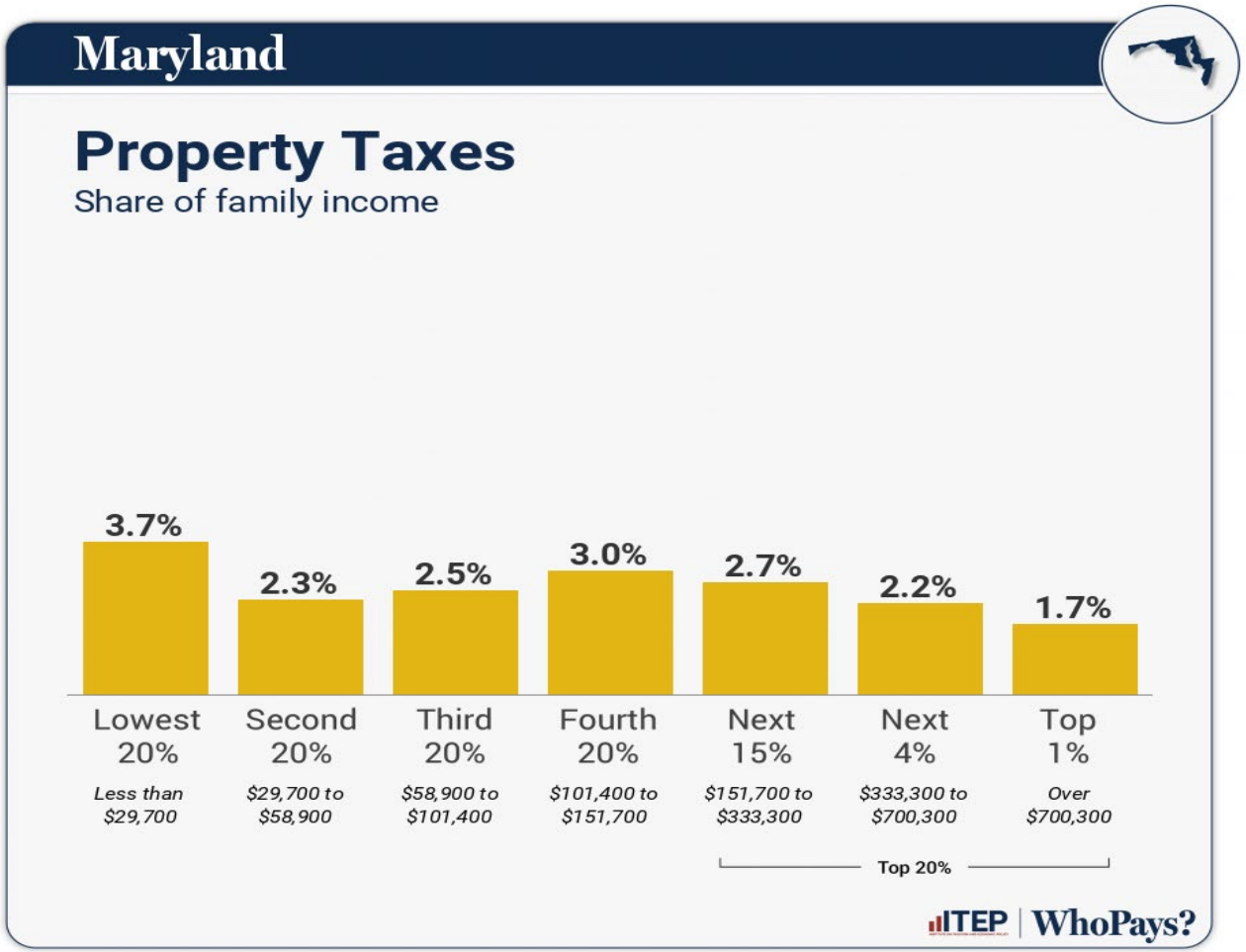
- If local governments use the revenue from a local sales tax to fund a reduction in the property tax, the regressivity of the local tax structure would significantly increase, with the tax burden shifting from higher-income individuals to lower-income individuals.

- This is because while the property tax is also somewhat regressive, it is far less regressive than the sales tax.

- In addition, renters are much less likely to benefit from property tax reductions than homeowners, because renters are often excluded from property tax relief programs, and landlords may not pass property tax savings on to their tenants. Renters have lower incomes on average than homeowners.

- According to ITEP, middle- and lower-income individuals in Maryland already pay more in sales taxes than they do in property taxes.

Distribution of the Tax Burden



Considerations for Local Sales Tax

- Sales taxes generate a large amount of revenue. A 1% local sales tax would raise $1.1 billion statewide if imposed uniformly in all jurisdictions.

- A local sales tax would allow local governments to capture some revenue from commuters and tourists who do not pay property or income taxes in the jurisdiction but use local services.

- However, the vast majority of a local sales tax would be paid by local residents, according to studies. And hotel rental and food and beverage taxes provide targeted options to collect revenue from visitors without burdening local residents to the same degree.

Considerations for Local Sales Tax (cont.)

- The modern economy is increasingly dominated by services. Because the Maryland sales tax is currently imposed primarily on goods rather than services, it could be viewed as outdated. The sales tax is currently imposed on a shrinking tax base.

- If counties use sales tax revenue to fund a reduction in the local income tax, the effect on the local tax structure would be even more regressive than using sales tax revenue to fund a reduction in the property tax. This is because the sales tax is the most regressive tax and the income tax is the most progressive tax in common use.

- Granting the authority to impose a general sales tax, a power currently held exclusively by the State, to local jurisdictions would diminish the State's capacity to use the State sales tax to address financial needs now and in the future.