


Andrew Klein

FROM	NAME & TITLE	Andrew Kleine, Chief	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Department of Finance		
	SUBJECT	City Council Bill No.10-0468 Income Tax		

DATE: April 19, 2010

TO

Honorable President and
 Members of the City Council
 C/O Karen Randle
 Room 409, City Hall

This bill proposes that the income tax rate be increased from 3.05% to 3.20%.

Analysis

Maryland State Law authorizes Baltimore City and Maryland's 23 counties to impose a local tax on the personal incomes of residents. The income tax rate is capped at 3.2 % by the State; the Baltimore City rate is currently at 3.05%. Rate increases must be transmitted to the State by June 30, 2009. No additional mechanisms need to be in place for collection of this tax and no additional expenses will accrue to the City.

- For a family of four with a \$73,000 annual income filing a joint return, the tax increase is expected to be about \$3.27 every two weeks.
- Approximately 25% of the tax increase will be offset by a reduction in federal taxes when returns are itemized (based on median income).
- Low income families receive some protection from income tax in that there is no tax on incomes of less than \$16,800 (based on standard deduction and exemptions for a family of four).
- Montgomery, Howard and Prince George's counties are at the maximum rate of 3.2%.

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Citizen Impact of an Income Tax Rate Increase				
	Median Income		\$100,000 Income	
	Single (Individual)	Joint (Family of 4)	Single (Individual)	Joint (Family of 4)
Income	\$ 36,894	\$ 73,788	\$ 100,000	\$ 200,000
Standard Deduction	\$ (2,000)	\$ (4,000)	\$ (2,000)	\$ (4,000)
Exemptions	\$ (3,200)	\$ (12,800)	\$ (3,200)	\$ (12,800)
Taxable Income	\$ 31,694	\$ 56,988	\$ 94,800	\$ 183,200
Tax at Current level 3.05%	\$ 967	\$ 1,738	\$ 2,891	\$ 5,588
Additional Tax at 3.20%	\$ 48	\$ 85	\$ 142	\$ 275
Per paycheck (26 periods)	\$ 1.85	\$ 3.27	\$ 5.47	\$ 10.58

Fiscal Impact

The Fiscal 2010 budget for income tax is \$251 million. The Fiscal 2011 income tax is projected to be \$235 million at the current rate. The increase is expected to generate an additional \$5.9 million in revenue for Fiscal 2011. Note that this is a half-year of receipts and will double in Fiscal 2012.

Recommendation

The Finance Department urges the passage of this rate increase as the additional revenue is needed to fill critical budget gaps for Fiscal 2011. This proposal is part of a \$50 million revenue package that shares the burden of new taxes and fees among residents, non-residents, businesses and nonprofit organizations. The new revenue will contribute to a comprehensive plan for closing the City's \$121 million budget gap. The plan closes 60% of the gap with spending reductions and 40% with revenue enhancements.

CC: Edward J. Gallagher
Angela Gibson

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