Supreme Court decision to cost Maryland millions

By BRIAN WITTE - Associated Press - Monday, May 18, 2015

ANNAPOLIS, Md. (AP) - A Supreme Court ruling in a Maryland tax case will cost the state an estimated $200 million in refunds it will have to pay residents stretching back seven or eight years, state officials estimated Monday.

The 5-4 decision also means Maryland counties will lose about $42 million annually in tax revenue going forward, after the high court ruled that it is unconstitutional not to allow a tax credit for money residents make in other states. Maryland does not apply the tax deduction on a local "piggy back" tax collected on income tax by counties.

Last month, lawmakers prepared for an unfavorable ruling by directing money to be paid out of a state reserve fund that is set aside to pay tax refunds. Lawmakers also stipulated that local governments will repay the money, staggered out over nine quarters to help soften the blow.

The ruling will have the biggest impact on Montgomery County, the state's largest jurisdiction in the suburbs of the nation's capital. County officials estimate the impact for the next fiscal year, which begins July 1, will be between $8 million and $10 million. The county's share of the repayment plan is estimated to be more than $50 million in fiscal year 2017. While Montgomery County's overall budget is about $5 billion, the set back is still significant.

"It's going to be a serious challenge, particularly for counties where there's a lot of folks with earned income that's taxed by other states," said Del. Bill Frick, a Montgomery County Democrat.

Maryland officials have been bracing for the bad news. The state's highest court ruled against the tax in 2013.

George Leventhal, president of the Montgomery County Council, noted that the decision, though unwelcome, wasn't unexpected.

"We'll monitor the demands on the budget, and if it's necessary to engage in a mid-year savings plan … then we'll take that up if it's necessary," Leventhal said.

Montgomery County Executive Isiah Leggett wrote in a letter to Leventhal that county officials still don't know the specific fiscal impact of the ruling, because the county does not have information on refund claims for tax years 2012-2014.

"As we have done in the past, we will continue to work closely with the Council to jointly and comprehensively address this challenge to maintain the county's strong financial position going into the future and ensure the continuity of essential services," Leggett wrote.

While the brunt of the impact will fall on Montgomery County, some smaller counties near the Delaware border, such as Cecil County, also will be affected, because of the number of residents who work in neighboring Delaware.

"It's also a big hit for them, so they're all going to need to figure out how to absorb that in their budgets going forward," said Andrea Mansfield, legislative director for the Maryland Association of Counties.

The case arose after Maryland residents Brian and Karen Wynne challenged their tax bill. They had been blocked from deducting $84,550 that they had paid in income taxes to 39 other states. Brian Wynne's out-of-state income resulted from his ownership stake in a health care company that operates nationwide.

The Wynnes argued that Maryland was unfairly subjecting them to double taxation and taxing earnings that have no connection to the state.