

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 1004 (Senator Jones)
Budget and Taxation

State Individual Income Tax - Surcharge on Higher Incomes

This bill establishes new income tax brackets and rates for higher-income individuals. The new top marginal tax rate would be 6.5%.

The bill takes effect July 1, 2008 and applies to tax year 2008 through 2012.

Fiscal Summary

State Effect: General fund revenues would increase by \$231.8 million in FY 2009, which reflects the impact of one and one-half tax years. Future year revenues reflect estimated taxable income. General fund expenditures would increase by \$68,000 in FY 2009 due to implementation costs at the Comptroller's Office.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$231.8	\$165.3	\$174.7	\$179.3	\$94.5
GF Expenditure	.1	0	0	0	0
Net Effect	\$231.7	\$165.3	\$174.7	\$179.3	\$94.5

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None. The bill does not alter local income tax rates.

Small Business Effect: Meaningful.

Analysis

Bill Summary/Current Law: Exhibit 1 shows the current State income tax rates. Exhibit 2 lists the tax brackets proposed by the bill.

Exhibit 1
Maryland State Income Tax Rates
Tax Year 2008

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
2.00%	\$1 - \$1,000	2.00%	\$1 - \$1,000
3.00%	\$1,001 - \$2,000	3.00%	\$1,001 - \$2,000
4.00%	\$2,001 - \$3,000	4.00%	\$2,001 - \$3,000
4.75%	\$3,001 - \$150,000	4.75%	\$3,001 - \$200,000
5.00%	\$150,001 - \$300,000	5.00%	\$200,001 - \$350,000
5.25%	\$300,001 - \$500,000	5.25%	\$350,001 - \$500,000
5.50%	Excess of \$500,000	5.50%	Excess of \$500,000

Exhibit 2
Maryland State Income Tax Rates
as Proposed by SB 1004

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
2.00%	\$1 - \$1,000	2.00%	\$1 - \$1,000
3.00%	\$1,001 - \$2,000	3.00%	\$1,001 - \$2,000
4.00%	\$2,001 - \$3,000	4.00%	\$2,001 - \$3,000
4.75%	\$3,001 - \$150,000	4.75%	\$3,001 - \$200,000
5.00%	\$150,001 - \$300,000	5.00%	\$200,001 - \$350,000
5.25%	\$300,001 - \$500,000	5.25%	\$350,001 - \$500,000
5.50%	\$500,001 - \$750,000	5.50%	\$500,001 - \$750,000
6.00%	\$750,001 - \$1,000,000	6.00%	\$750,001 - \$1,000,000
6.50%	Excess of \$1 million	6.50%	Excess of \$1 million

Background: Chapter 3 of the 2007 special session made several changes to the personal income tax, including establishing new tax brackets. The Board of Revenue Estimates projects that the new brackets will increase general fund revenues by a total of \$967.8 million in fiscal 2008 through 2012.

State Revenues: The new income tax rates and brackets would be in effect beginning tax year 2008, with general fund revenues increasing by \$151.5 million in that tax year and by \$160.6 million in tax year 2009. As a result, general fund revenues would increase by \$231.8 million, which represents all of tax year 2008 and one-half of tax year 2009. Future years reflect the impact of one-half of the previous tax year and one-half of the current tax year except for fiscal 2013, which represents the impact of one-half of a tax year. Accordingly, State revenues would increase by \$165.3 million in fiscal 2010 and by \$94.5 million in fiscal 2013.

State Expenditures: General fund expenditures at the Comptroller's Office would increase by \$68,040 in fiscal 2009 as a result of issuing new employer withholding tables.

Small Business Impact: Small businesses that are partnerships, S corporations, limited liability corporations, and sole proprietorships would be meaningfully impacted by the bill. These small businesses with higher amounts of taxable income would be negatively impacted through increased income tax liabilities.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 11, 2008
mcp/hlb

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