

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 896 (Delegates Gilchrist and Murphy)
 Ways and Means

Income Tax - Standard Deduction

This bill alters the value of the standard deduction to equal \$2,000 for all single taxpayers and \$4,000 for all taxpayers filing jointly.

The bill takes effect July 1, 2010, and applies to tax year 2010 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$8.7 million in FY 2011 due to increased claims under the standard deduction. Expenditures are not affected.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	(\$8.7)	(\$8.1)	(\$7.7)	(\$7.2)	(\$6.8)
Expenditure	0	0	0	0	0
Net Effect	(\$8.7)	(\$8.1)	(\$7.7)	(\$7.2)	(\$6.8)

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

Local Effect: Local income tax revenues decrease by \$3.8 million in FY 2011 and by \$3.0 million in FY 2015. Montgomery County expenditures for its Earned Income Credit (EIC) program may increase.

Small Business Effect: None.

Analysis

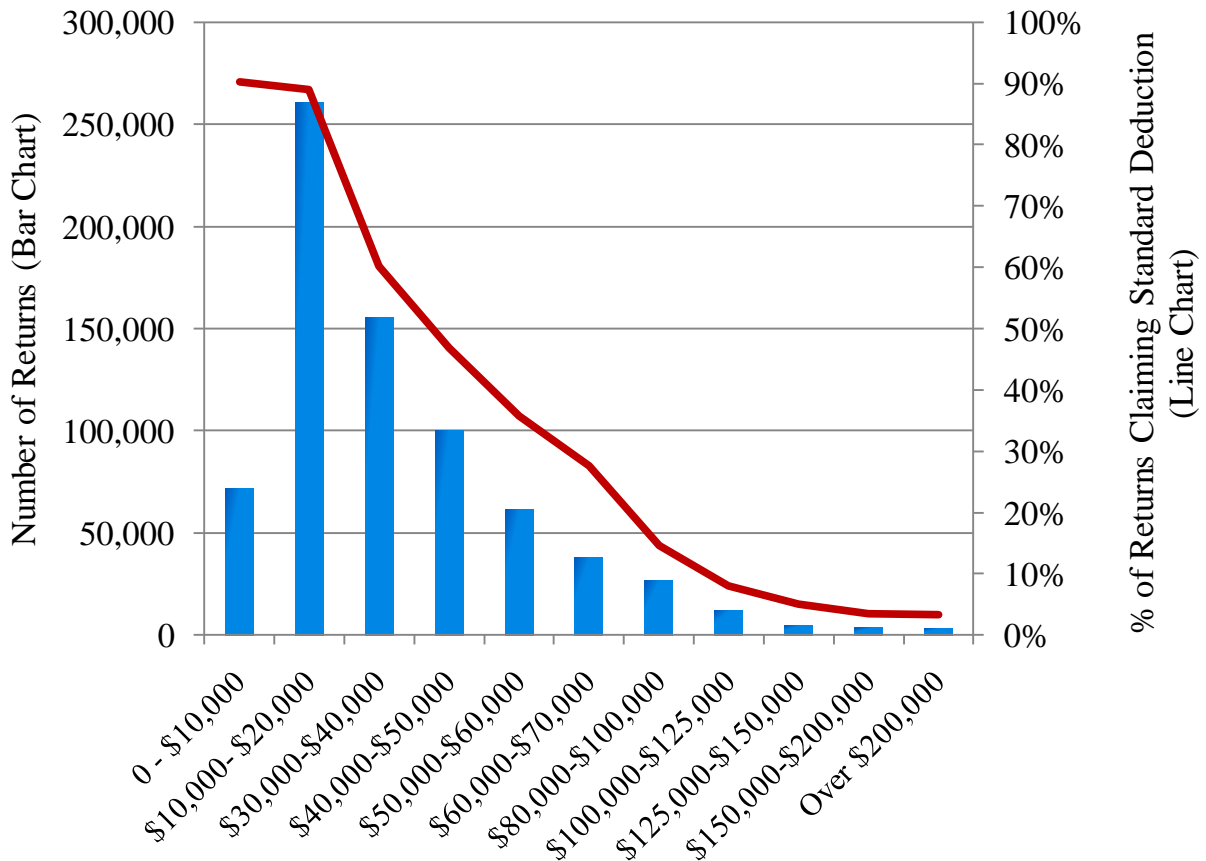
Current Law: The value of the standard deduction is equal to 15% of Maryland adjusted gross income (MAGI) subject to minimum and maximum values, depending on filing status as shown in **Exhibit 1**.

Exhibit 1
State Standard Deduction

Single, Dependent Filer, Married Filing Separately		Joint, Head of Household, Widower	
<u>MAGI</u>	<u>Deduction</u>	<u>MAGI</u>	<u>Deduction</u>
Under \$10,000	\$1,500	Under \$20,000	\$3,000
\$10,000-13,333	15%	\$20,000-26,667	15%
Over \$13,333	\$2,000	Over \$26,667	\$4,000

Background: For State income tax purposes, individuals, except fiduciaries, may elect to either take the standard deduction or, if the taxpayer itemized deductions for federal income tax purposes, itemize qualifying expenses. Generally, an individual would elect to take the standard deduction if the individual does not have qualifying expenses that can be itemized in excess of the standard deduction. In tax year 2008, 1.4 million or 51% of all tax returns claimed the standard deduction. Of the 1 million taxable returns claiming the standard deduction, about two-thirds of the returns had MAGI less than \$35,000. **Exhibit 2** lists the number of returns claiming the standard deduction by MAGI, and the percentage of returns in each income class that claimed the standard deduction.

Exhibit 2
Tax Returns Claiming the Standard Deduction by MAGI
Tax Year 2008 Taxable Returns



Source: Comptroller's Office

State Revenues: The bill alters the value of the standard deduction beginning with tax year 2010. As a result, general fund revenues will decrease by \$8.7 million in fiscal 2011. The amount of revenue loss is decreased by 6% annually to reflect increased number of individuals who will itemize deductions. The estimate also includes the impact on taxpayers claiming the earned income credits.

Local Fiscal Effect: Local income tax revenues will decrease by about 3% of the net change in tax liability in taxable returns as a result of the bill. Local revenues decrease by \$3.8 million in fiscal 2011, \$3.6 million in fiscal 2012, \$3.3 million in fiscal 2013, \$3.1 million in fiscal 2014, and by \$3.0 million in fiscal 2015.

Montgomery County has a local EIC grant program based on the State's refundable EIC. Payments for this county EIC grant will be made at the end of July for tax year 2010 returns filed through June 30, 2010. Accordingly, Montgomery County expenditures may increase in fiscal 2012 and beyond by about \$400,000 annually.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 9, 2010
ncs/hlb

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