

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1177
Ways and Means

(Delegate Ivey, *et al.*)

Income Tax - Millionaires Tax - Sunset Repeal

This bill makes permanent the temporary personal income tax surcharge currently imposed on taxpayers with net taxable incomes in excess of \$1 million.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: General fund revenues increase by \$27.3 million in FY 2011 due to the surcharge extension. Future years reflect annualization and current economic forecast. Expenditures are not affected.

| (\$ in millions) | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenue | \$27.3 | \$69.8 | \$77.1 | \$85.0 | \$92.3 |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$27.3 | \$69.8 | \$77.1 | \$85.0 | \$92.3 |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: **Exhibit 1** and **Exhibit 2** show State income tax rates depending on filing status for tax years 2008 through 2010 and beginning in tax year 2011 when the “millionaires” surcharge is no longer in effect.

Exhibit 1
Maryland State Income Tax Rates
Tax Year 2008-2010

| Single, Dependent Filer, Married | | Joint, Head of Household, Widower | |
|---|---------------------------------------|--|---------------------------------------|
| Filing Separate | | | |
| <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-\$1,000,000 | 5.50% | \$500,001-\$1,000,000 |
| 6.25% | Excess of \$1 Million | 6.25% | Excess of \$1 Million |

Exhibit 2
Maryland State Income Tax Rates
Beginning Tax Year 2011

| Single, Dependent Filer, Married | | Joint, Head of Household, Widower | |
|---|---------------------------------------|--|---------------------------------------|
| Filing Separate | | | |
| <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 |

Background: Due to the State's fiscal crisis in the early 1990s, the General Assembly approved a temporary 6% income tax bracket on taxable incomes over \$100,000 for single taxpayers and \$150,000 for joint returns. The increased rate applied for tax years

1992 through 1994 only. Chapter 4 of 1997 reduced the top marginal rate from 5% to 4.75%.

Chapter 3 of the 2007 special session enacted several changes to the personal income tax, including an increase in the top marginal income tax rate from 4.75% to 5.5%. Chapter 10 of 2008 repealed the sales and use tax on computer services imposed by Chapter 3 and established a temporary income tax surcharge of 6.25% on taxpayers with net taxable income in excess of \$1 million. This surcharge is in effect for tax years 2008 through 2010.

State Revenues: The bill permanently extends the temporary personal income tax surcharge on taxpayers with net taxable incomes in excess of \$1 million beginning in tax year 2011, with general fund revenues increasing by \$67.0 million. As a result, fiscal 2011 revenues increase by \$27.3 million, which reflects about 40% of the change in tax year 2011. Beginning with fiscal 2012, the impact is generally 40% of the current tax year and 60% of the following tax year. **Exhibit 3** shows the fiscal impact of the rate adjustment in fiscal 2011 through 2015.

Exhibit 3
Effect of Personal Income Tax Surcharge
(\$ in Millions)

| <u>FY 2011</u> | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$27.3 | \$69.8 | \$77.1 | \$85.0 | \$92.3 |

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, 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. An unknown number of impacted businesses would be small businesses. Any impacted small business that was a sole proprietorship would have net profits in excess of \$1 million, after deducting wages and all other expenses, including depreciation on any real property or equipment used in the business. For small business having multiple owners or partners, the business would not be impacted unless the business had net profits high enough to distribute in excess of \$1 million to any individual or partner.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mpc/hlb

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