

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 798

(Senator Jones-Rodwell)

Budget and Taxation

Income Tax - Millionaires Tax - Extension of Termination Date

This bill extends to tax years 2011 through 2014 the 6.25% personal income tax rate that was imposed on taxpayers with net taxable income in excess of \$1 million in tax years 2008 through 2010.

The bill takes effect July 1, 2011, and applies to tax years 2011 through 2014.

Fiscal Summary

State Effect: General fund revenues increase by \$75.3 million in FY 2012 due to the imposition of the 6.25% rate. Future years reflect the current income tax revenue forecast and extension of the tax rate as specified by the bill. Expenditures are not affected.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	\$75.3	\$63.3	\$71.9	\$50.3	-
Expenditure	0	0	0	0	0
Net Effect	\$75.3	\$63.3	\$71.9	\$50.3	\$.0

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: Exhibit 1 and Exhibit 2 show the State income tax rates for tax years 2008 through 2010 and for tax year 2011, when the 6.25% income tax rate is no longer in effect.

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

Single, Dependent Filer, Married		Joint, Head of Household, Widower	
Filing Separate		Filing Separate	
Rate	<u>Maryland Taxable Income</u>	Rate	<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
Tax Year 2011

Single, Dependent Filer, Married		Joint, Head of Household, Widower	
Filing Separate		Filing Separate	
Rate	<u>Maryland Taxable Income</u>	Rate	<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 rate on taxable income over \$100,000 for single

taxpayers and \$150,000 for joint returns. The 6% 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 an income tax rate of 6.25% on net taxable income in excess of \$1 million for tax years 2008 through 2010. The Comptroller's Office advises that the total amount of revenue from the 6.25% rate totaled \$70.5 million in tax year 2008, \$49.7 million in tax year 2009, and an estimated \$51.9 million in tax year 2010.

State Revenues: The bill extends to tax years 2011 through 2014 the personal income tax rate of 6.25% on net taxable income in excess of \$1 million, with general fund revenues increasing by \$54.5 million in tax year 2011 and by \$61.3 million in tax year 2012. As a result, fiscal 2012 revenues increase by \$75.3 million, reflecting the change in tax year 2011 and about 35% of the change in tax year 2012. Beginning in fiscal 2013, the revenue estimates reflect annualization. In tax year 2008, taxpayers in Montgomery County and Baltimore County constituted about two-thirds of the taxpayers with net taxable income over \$1 million. **Exhibit 3** shows the fiscal impact of the 6.25% rate in fiscal 2012 through 2016.

Exhibit 3
Fiscal Impact of 6.25% Income Tax Rate
(\$ in Millions)

<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
\$75.3	\$63.3	\$71.9	\$50.3	\$0

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships would be meaningfully impacted by the bill. Any of 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. For a 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: SB 913 of 2010 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 1177 of 2010 proposed to make the 6.25% income tax rate permanent. HB 1177 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - March 11, 2011
ncs/jrb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510