

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

Senate Bill 406 (Senator Brochin, *et al.*)
 Budget and Taxation

Income Tax - Rates and Exemptions

This bill repeals the increased State income tax rates and reduction of the personal exemption amounts for certain higher-income taxpayers enacted by Chapter 2 of the first special session of 2012 (SB 1302).

The bill takes effect July 1, 2013, and applies to tax year 2013 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$277.9 million in FY 2014 due to the income tax rates and personal exemption amounts specified by the bill, reflecting revenues from one and one-half tax years. Future year revenue estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2014 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$277.9)	(\$203.1)	(\$220.5)	(\$237.2)	(\$253.3)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$277.9)	(\$203.1)	(\$220.5)	(\$237.2)	(\$253.3)

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

Local Effect: Local income tax revenues decrease by \$34.0 million in FY 2014 and by \$23.8 million in FY 2018 due to the increase in personal exemption amounts specified by the bill. No effect on expenditures.

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships will be meaningfully impacted by the bill.

Any of these small businesses with higher amounts of taxable income will be positively impacted through decreased income tax liabilities.

Analysis

Current Law/Bill Summary: Chapter 2 of the first special session of 2012 (SB 1302) contained numerous provisions that increased State and local tax revenues. About 90% of the estimated increase in fiscal 2014 revenues included in that legislation will be generated from the enactment of increased State income tax rates and a reduction of the personal exemption amounts for certain higher-income taxpayers. These changes are effective beginning in tax year 2012. The bill proposes to repeal these income tax changes beginning in tax year 2013; accordingly, the rates and personal exemption amounts will revert to their values prior to enactment of Chapter 2.

Exhibit 1 shows the State income tax rates under current law. **Exhibit 2** shows the State income tax rates proposed by the bill beginning in tax year 2013.

Exhibit 1 Maryland State Income Tax Rates Current Law

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-\$100,000	4.75%	\$3,001-\$150,000
5.00%	\$100,001-\$125,000	5.00%	\$150,001-\$175,000
5.25%	\$125,001-\$150,000	5.25%	\$175,001-\$225,000
5.50%	\$150,001-\$250,000	5.50%	\$225,001-\$300,000
5.75%	Excess of \$250,000	5.75%	Excess of \$300,000

Exhibit 2
Maryland State Income Tax Rates
Proposed

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

An individual for State income tax purposes is entitled to claim the same number of personal exemptions that the individual claimed on the federal income tax return. Nonresidents and part-time residents are required to prorate exemptions based on the percentage of income subject to Maryland tax. **Exhibit 3** shows the current value of the personal exemption by federal adjusted gross income (FAGI) and filing class and the proposed values under the bill.

Exhibit 3
Personal Exemption Values by FAGI and Filing Class

<u>FAGI</u>	<u>Current</u>	<u>Proposed</u>	<u>Change</u>
Single Taxpayers			
\$100,000 or less	\$3,200	\$3,200	\$0
\$100,001-\$125,000	1,600	2,400	800
\$125,001-\$150,000	800	1,800	1,000
\$150,001-\$200,000	0	1,200	1,200
Over \$200,000	0	600	600
Joint Taxpayers			
\$150,000 or less	\$3,200	\$3,200	\$0
\$150,001-\$175,000	1,600	2,400	800
\$175,001-\$200,000	800	1,800	1,000
\$200,001-\$250,000	0	1,200	1,200
Over \$250,000	0	600	600

State Revenues: The State income tax rates and personal exemption amounts under the bill take effect beginning in tax year 2013. As a result, general fund revenues will decrease by \$277.9 million in fiscal 2014. **Exhibit 4** shows the estimated impact of the bill on State and local revenues.

Exhibit 4
State and Local Revenue Impacts
Fiscal 2014-2018

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Rates	(\$220.9)	(\$164.6)	(\$181.5)	(\$197.7)	(\$213.3)
Personal Exemptions	(57.1)	(38.6)	(39.0)	(39.5)	(40.0)
Total State Revenues	(\$277.9)	(\$203.1)	(\$220.5)	(\$237.2)	(\$253.3)
Local Revenues	(\$34.0)	(\$23.0)	(\$23.3)	(\$23.6)	(\$23.8)
Total Revenues	(\$312.0)	(\$226.1)	(\$243.8)	(\$260.8)	(\$277.1)

State Expenditures: General fund expenditures at the Comptroller's Office may increase minimally in fiscal 2014 as a result of issuing new employer withholding tables.
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Local Revenues: Local income tax revenues will decrease as a result of the increase in personal exemption amounts specified by the bill. Local revenues will decrease by \$34.0 million in fiscal 2014 and by \$23.8 million in fiscal 2018, as shown in Exhibit 4.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mlm/jrb

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