

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE

House Bill 326 (Delegate Serafini, *et al.*)  
 Ways and Means

Income Tax Relief Act of 2014

This bill reduces State income tax rates by 10%, phased in over three tax years beginning in tax year 2014.

The bill takes effect July 1, 2014.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$525.0 million in FY 2015 due to the income tax rates specified by the bill, reflecting revenues from one and one-half tax years. Future year revenue estimates reflect annualization, the rates specified by the bill, and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2015 through 2017 due to implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$525.0)	(\$654.0)	(\$778.6)	(\$774.7)	(\$771.7)
GF Expenditure	-	-	-	\$0	\$0
Net Effect	(\$525.0)	(\$654.0)	(\$778.6)	(\$774.7)	(\$771.7)

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

**Local Effect:** None.

**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 will be positively impacted through decreased income tax liabilities.

## Analysis

**Current Law/Bill Summary:** Chapter 2 of the first special session of 2012 contained numerous provisions that increased State and local tax revenues, including increased State income tax rates and a reduction of the personal exemption amounts for certain higher-income taxpayers effective beginning in tax year 2012. **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 2016, when the 10% rate reduction is fully phased in.

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### Exhibit 1 Maryland State Income Tax Rates Current Law

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

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**Exhibit 2**  
**Maryland State Income Tax Rates**  
**Proposed – Tax Year 2016**

<b>Single, Dependent Filer, Married Filing Separate</b>		<b>Joint, Head of Household, Widower</b>	
<b><u>Rate</u></b>	<b><u>Maryland Taxable Income</u></b>	<b><u>Rate</u></b>	<b><u>Maryland Taxable Income</u></b>
1.80%	\$1-\$1,000	1.80%	\$1-\$1,000
2.70%	\$1,001-\$2,000	2.70%	\$1,001-\$2,000
3.60%	\$2,001-\$3,000	3.60%	\$2,001-\$3,000
4.28%	\$3,001-\$100,000	4.28%	\$3,001-\$150,000
4.50%	\$100,001-\$125,000	4.50%	\$150,001-\$175,000
4.73%	\$125,001-\$150,000	4.73%	\$175,001-\$225,000
4.95%	\$150,001-\$250,000	4.95%	\$225,001-\$300,000
5.18%	Excess of \$250,000	5.18%	Excess of \$300,000

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**State Revenues:** The proposed State income tax rates take effect beginning in tax year 2014. As a result, general fund revenues will decrease by \$525.0 million in fiscal 2015, which reflects the impact of all of tax year 2014 and one-half of tax year 2015. Future year estimates reflect annualization and the phase in of the rates specified by the bill. **Exhibit 3** shows the estimated impact of the bill on State revenues.

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**Exhibit 3**  
**State Revenue Impacts**  
**Fiscal 2015-2019**  
**(\$ in Millions)**

<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>FY 2018</u></b>	<b><u>FY 2019</u></b>
(\$525.0)	(\$654.0)	(\$778.6)	(\$774.7)	(\$771.7)

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**State Expenditures:** General fund expenditures for the Comptroller’s Office may increase minimally in fiscal 2015 through 2017 as a result of issuing new employer withholding tables and altering the personal income tax forms.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 16, 2014  
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