HB 240

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 240 (Delegate Tarlau, *et al.*)
Ways and Means

State Individual Income Tax - Rate Changes

This bill alters the State income tax by (1) establishing a new income tax bracket of 4.6% for taxpayers with net taxable income of between $3,000 and $25,000 ($50,000 for joint filers) and (2) increasing marginal tax rates on taxpayers with net taxable incomes above $500,000 by imposing new tax brackets, including a top marginal rate of 6.25% on net taxable incomes over $1 million.

The bill takes effect July 1, 2015, and applies to tax year 2015 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $17.8 million in FY 2016 due to imposition of the specified income tax rates and brackets. Future year revenue estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase in FY 2016 due to one-time implementation costs at the Comptroller's Office.

($ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	($17.8)	$4.4	$23.0	$42.8	$65.1
GF Expenditure	-	$0	$0	$0	$0
Net Effect	($17.8)	$4.4	$23.0	$42.8	$65.1

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: Chapter 2 of the 2012 first special session 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 2015.

Exhibit 1
Maryland State Income Tax Rates
Current Law

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
Rate	**Maryland Taxable Income**	**Rate**	**Maryland Taxable Income**
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 by the Bill

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
Rate	**Maryland Taxable Income**	**Rate**	**Maryland Taxable Income**
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
4.60%	$3,001-$25,000	4.60%	$3,001-$50,000
4.75%	$25,001-$100,000	4.75%	$50,001-$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%	$250,001-$500,000	5.75%	$300,001-$500,000
6.00%	$500,001-$1,000,000	6.00%	$500,001-$1,000,000
6.25%	Excess of $1 Million	6.25%	Excess of $1 Million

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 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 revenue increase from the 6.25% rate totaled $78.2 million in tax year 2008, $60.8 million in tax year 2009, and $75.0 million in tax year 2010.

State Revenues: The proposed State income tax rates and brackets take effect beginning in tax year 2015. As a result, general fund revenues will decrease by $17.8 million in fiscal 2016, which reflects the impact of all of tax year 2015 and one-half of tax year 2016. Future year revenue estimates reflect annualization and the current income tax revenue forecast. Revenues increase beginning in fiscal 2017 as the income of higher-income taxpayers, who have increased tax liabilities under the bill, is projected to increase at a greater rate than other taxpayers. **Exhibit 3** shows the estimated impact of the bill on State revenues.

Exhibit 3
State Revenue Impacts
Fiscal 2016-2020
($ in Millions)

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
($17.8)	$4.4	$23.0	$42.8	$65.1

The bill will not impact taxpayers who have a net taxable income of less than $3,000, will decrease State taxes for taxpayers with net taxable incomes above this amount but below $513,242 ($528,244 for joint filers), and will increase State taxes for taxpayers with incomes above these thresholds. **Exhibit 4** shows the number of resident taxable returns in tax year 2013 that under the bill would have had a tax decrease, increase, and no change in tax liability and the average change in taxes per return.

Exhibit 4
Change in Tax Liabilities under the Bill
Resident Taxable Returns

	Number	% Total	Average Change
No Change	189,840	7.8%	$0
Decrease	2,230,330	91.4%	(40)
Increase	18,370	0.8%	3,085
Total	**2,438,550**		**($13)**

State Expenditures: The bill establishes new tax brackets and rates and requires the Comptroller to waive any penalty or interest imposed on an individual relating to the payment of estimated income taxes for calendar 2015 to the extent that the Comptroller determines that the interest or penalty would not have been incurred but for an increase in the income tax rates under the bill. As a result, general fund expenditures for the Comptroller's Office may increase in fiscal 2016 due to issuing new employer withholding tables, altering the personal income tax forms, and additional processing of income tax returns.

Small Business Impact: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships will be meaningfully impacted by the bill. Small businesses with lower (higher) amounts of taxable income will be positively (negatively) impacted due to the change in income tax liabilities.

Additional Information

Prior Introductions: None.

Cross File: SB 389 (Senator Montgomery, *et al.*) **-** Budget and Taxation.

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

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min/jrb

Analysis by: Robert J. Rehrmann

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