

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 124
Budget and Taxation

(Senator Serafini)

Income Tax Relief Act of 2016

This bill reduces State income tax rates by 10%, phased in over three tax years beginning in tax year 2017.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by \$151.9 million in FY 2017 due to the income tax rates specified by the bill, reflecting the impact of about one-half of a tax year. 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 2017 through 2019 due to implementation costs at the Comptroller's Office.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$151.9)	(\$459.6)	(\$798.7)	(\$997.8)	(\$1,041.9)
GF Expenditure	-	-	-	\$0	\$0
Net Effect	(\$151.9)	(\$459.6)	(\$798.7)	(\$997.8)	(\$1,041.9)

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: 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 2019, when the 10% rate reduction is fully phased in.

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 – Tax Year 2019

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>
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

State Revenues: The proposed State income tax rates take effect beginning in tax year 2017. As a result, general fund revenues will decrease by \$151.9 million in fiscal 2017, which reflects the impact of about one-half of tax year 2017. 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 through fiscal 2021.

Exhibit 3
State Revenue Impacts
Fiscal 2017-2021
(\$ in Millions)

<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
(\$151.9)	(\$459.6)	(\$798.7)	(\$997.8)	(\$1,041.9)

State Expenditures: General fund expenditures for the Comptroller's Office may increase minimally in fiscal 2017 through 2019 as a result of issuing new employer withholding tables and altering the personal income tax forms.

Additional Information

Prior Introductions: A similar bill, HB 326 of 2014, 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 - January 29, 2016
min/jrb

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