Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 365 (Delegate Walker, *et al.*)
Ways and Means Budget and Taxation

Income Tax - Personal Exemptions - Alteration

This bill clarifies that for State income tax purposes a taxpayer can deduct a personal exemption for the taxpayer, the taxpayer's spouse, and eligible dependents under Section 152 of the Internal Revenue Code (IRC). The bill also requires the Board of Revenue Estimates (BRE), in consultation with the Consensus Revenue Monitoring and Forecasting Group, to review and update as necessary its January 2018 report on the impact of the federal Tax Cuts and Jobs Act of 2017 and to include certain information in the updated report. BRE must submit the updated report to the Governor and General Assembly by December 15, 2018. **The bill takes effect July 1, 2018, and applies to tax years 2018 and beyond.**

Fiscal Summary

State Effect: None. The bill's provisions related to the State personal exemption are clarifying in nature and reflect current practice. BRE can update the required report with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background:

Federal Law

An individual can deduct a personal exemption for federal income tax purposes as provided under Section 151 of the IRC. A taxpayer can deduct an exemption for (1) the individual;

(2) the taxpayer's spouse; and (3) each individual who is a dependent of the taxpayer, as defined in Section 152 of the IRC.

For tax years prior to 2018, the value of the exemption was indexed for inflation and was reduced or eliminated if the taxpayer's federal adjusted gross income (FAGI) exceeded certain thresholds. In tax year 2017, the personal exemption equaled $4,050. The exemption began to phase-out for taxpayers with FAGI of $261,500 ($313,800 for married couples filing jointly) and completely phased out at $384,000 ($436,300 for married couples filing jointly).

Among other changes, federal Public Law 115-97, the Tax Cuts and Jobs Act of 2017, eliminates the benefit of the federal personal exemption in tax years 2018 through 2025 by reducing to zero the amount of the exemption that can be deducted. Beginning with tax year 2026, this provision is repealed and the provisions that were in effect prior to tax year 2018 will apply.

State Law

Whether or not a federal income tax return is filed, for State income tax purposes an individual other than a fiduciary is entitled to claim the same number of personal exemptions that can be claimed for federal income tax purposes as determined under Section 151 of the IRC. Nonresidents and part-time residents are required to prorate exemptions based on the percentage of income subject to Maryland tax.

Exhibit 1 shows the current value of the personal exemption by FAGI.

Exhibit 1
Personal Exemption Values by FAGI and Filing Class

	FAGI	Exemption Value
Single Taxpayers	$100,000 or less	$3,200
	$100,001-$125,000	1,600
	$125,001-$150,000	800
	Over $150,000	0
Joint Taxpayers	$150,000 or less	$3,200
	$150,001-$175,000	1,600
	$175,001-$200,000	800
	Over $200,000	0

FAGI: federal adjusted gross income

Individuals who are age 65 or older and blind individuals may claim an additional personal exemption of $1,000.

State/Local Effect: The bill clarifies that for State income tax purposes a taxpayer can deduct a personal exemption for the taxpayer, the taxpayer's spouse, and eligible dependents. Although the 2017 federal legislation reduces to zero the federal exemption amount in tax years 2018 through 2025, the Act does not repeal the personal exemption.

If the federal Act is construed to repeal the State personal exemption, however, general fund revenues will increase significantly beginning in fiscal 2019 due to the elimination of personal exemption deductions. State general fund revenues would increase by $730 million in fiscal 2019 and by approximately $500 million annually thereafter. Local income tax revenues would increase by $490 million in fiscal 2019 and by approximately $330 million annually thereafter.

If the State personal exemption was repealed, about 92% of all taxable returns (2.3 million) would have an increase in their gross tax liability. **Exhibit 2** shows the average State and local tax increase that repealing the personal exemption would have per tax return based on the taxpayer's filing status.

Exhibit 2
Average Increase in State and Local Taxes per Return
Tax Year 2018

Filing Status	State	Local	Total
Single	$131	$81	$212
Joint	342	212	554
All	**$236**	**$146**	**$382**

Additional Information

Prior Introductions: None.

Cross File: SB 184 (Senator Kasemeyer, *et al.*) - Budget and Taxation.

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

Fiscal Note History:	First Reader - January 29, 2018
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