Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 271 (Delegate Krebs, *et al.*)
Ways and Means

Income Tax - Standard Deduction - Alteration

This bill increases the values of the standard deduction. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by $407.1 million in FY 2020, reflecting the impact from one and one-half tax year. Future year estimates reflect annualization and the projected increase in the cost-of-living index. Minimal increase in general fund expenditures in FY 2020 due to computer programming expenses in the Comptroller's Office.

($ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	($407.1)	($284.2)	($293.2)	($302.0)	($312.0)
GF Expenditure	-	$0	$0	$0	$0
Net Effect	($407.1)	($284.2)	($293.2)	($302.0)	($312.0)

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

Local Effect: Local revenues decrease by $264.8 million in FY 2020 and by $203.0 million in FY 2024. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary/Current Law: For State income tax purposes, individuals, except fiduciaries, may elect to either take the standard deduction or, if the taxpayer itemized deductions for federal income tax purposes, itemize qualifying expenses. The value of the standard deduction is equal to 15% of Maryland adjusted gross income, subject to minimum and maximum values depending on filing status as shown in **Exhibit 1**.

Exhibit 1
State Income Tax Standard Deduction
Current Law – Tax Year 2019

Single, Dependent Filer, Married Filing Separately		Joint, Head of Household, Widower	
MAGI	**Deduction**	**MAGI**	**Deduction**
Under $10,000	$1,500	Under $20,333	$3,050
$10,000-$14,999	15%	$20,333-$30,322	15%
$15,000 & Over	$2,250	$30,333 & Over	$4,550

Note: Estimated values based on projected cost-of-living index.

MAGI: Maryland adjusted gross income

Beginning with tax year 2019 the maximum and minimum values of the standard deduction shown in Exhibit 1 are indexed based on the annual change in the cost of living. **Exhibit 2** shows the proposed values of the standard deduction beginning in tax year 2019. Beginning in tax year 2020, the standard deduction values will also be indexed as specified under current law.

Exhibit 2
State Income Tax Standard Deduction
Proposed – Tax Year 2019

Single, Dependent Filer, Married Filing Separately		Joint, Head of Household, Widower	
MAGI	**Deduction**	**MAGI**	**Deduction**
Under $30,000	$4,500	Under $53,333	$8,000
$30,000-$39,999	15%	$53,333-$79,999	15%
$40,000 & Over	$6,000	$80,000 & Over	$12,000

MAGI: Maryland adjusted gross income

Background:

Federal Tax Cuts and Jobs Act of 2017

The federal Tax Cuts and Jobs Act of 2017 (Public Law 115-97) was signed into law on December 22, 2017, and enacted significant changes to federal taxes, including the personal income tax. The U.S. Congressional Budget Office estimates that the Act will increase the federal government budget deficit by $1.9 trillion in federal fiscal years 2018 through 2028. About $1.3 trillion of this total is due to a reduction in revenues and about $600 billion reflects increased debt-service costs. These impacts are after accounting for the Act's estimated economic effects.

The Act reduces federal income taxes paid by many households primarily by (1) decreasing tax rates and taxing income at lower rates by altering the tax brackets; (2) expanding the child tax credit; and (3) roughly doubling the value of the standard deduction. Most of the personal income tax provisions are in effect for tax years 2018 through 2025.

Several of the Act's provisions impact State income taxes. As a result of the increased value of the federal standard deduction, and that under current law only those taxpayers who itemize for federal income tax purposes can itemize on their State income tax return, the Act will also reduce the number of State taxpayers who itemize deductions (with a corresponding increase in the number who claim the standard deduction).

Impact on Maryland Taxpayers

The Comptroller's Office estimates that as a result of the federal Act 71% of Maryland taxpayers will pay less in federal taxes, 13% will pay more, and the remaining 16% will not be impacted. In total, federal taxes paid by Maryland residents will decrease by $2.75 billion – reflecting a decrease of $3.54 billion paid by 2.0 million taxpayers and an increase of $782 million paid by 376,000 taxpayers. The Comptroller's Office estimates that the federal legislation will not impact the State and local income taxes paid by 71% of all taxpayers. About 6% of taxpayers will pay less and about 23% will pay additional State and local income taxes. In total, the Comptroller's Office estimates that 9% of all taxpayers will have a net increase in federal, State, and local tax liabilities and the remaining 91% of taxpayers will have no change or a net decrease in federal, State, and local tax liabilities.

The Comptroller's Office estimated that the changes to the State personal income tax will result in net additional State revenues of $403.9 million in fiscal 2019 and $315.9 million in fiscal 2020. Local income tax revenues will increase by an estimated $255.0 million in fiscal 2019 and $199.0 million in fiscal 2020. A significant portion of the revenue gain is due to the shift in taxpayers who will now claim the standard deduction.

2018 Legislation in Response to Federal Tax Act

In the 2018 session the General Assembly considered a number of bills that would have altered the personal income tax in light of the impacts of the federal legislation. The General Assembly passed legislation (Chapters 576 and 577 of 2018) increasing the value of the standard deduction by increasing its maximum value from $2,000 to $2,250 for single taxpayers and from $4,000 to $4,500 for taxpayers filing jointly. Prior to tax year 2018 the values of the standard deduction were not indexed. Chapters 576 and 577 indexed the minimum and maximum values of the standard deduction based on the annual change in the cost of living. It is estimated that increasing the value of the standard deduction will decrease State revenues by about $50 million annually.

State Revenues: The bill increases the values of the standard deduction in tax year 2019. Beginning in tax year 2020 the increased values of the standard deduction will be indexed based on inflation as provided under current law. It is assumed that the proposed changes impact withholdings and estimated payments. As a result, general fund revenues decrease by $407.1 million in fiscal 2020, which reflects the impact of tax year 2019 and about one-half of tax year 2020. **Exhibit 3** shows the projected State and local revenue loss from increasing and indexing the specified income tax components.

Exhibit 3
Projected State and Local Revenue Loss
($ in Millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State	($407.1)	($284.2)	($293.2)	($302.0)	($312.0)
Local	(264.8)	(184.9)	(190.7)	(196.5)	(203.0)
Total	**($671.9)**	**($469.1)**	**($483.9)**	**($498.5)**	**($515.0)**

This estimate also reflects the impact of recent federal legislation which is projected to increase the number of individuals who take the standard deduction for federal and state income tax purposes.

State Expenditures: General fund expenditures for the Comptroller's Office may increase minimally in fiscal 2020 as a result of issuing new employer withholding tables and altering the personal income tax forms.

Local Revenues: Local income tax revenues decrease as a result of the increase in the standard deduction amounts specified by the bill. Local revenues will decrease by $264.8 million in fiscal 2020 and by $203.0 million in fiscal 2024, as shown in Exhibit 3.

Additional Information

Prior Introductions: None.

Cross File: SB 87 (Senator Serafini) - Budget and Taxation.

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

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