

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 611 (Senator Pinsky)
 Budget and Taxation

Individual Income Tax - Rates and Rate Brackets - Alterations

This bill alters the personal income tax by establishing new tax brackets and increasing tax rates imposed including an increase in the top marginal tax rate from 5.75% to 7.50%. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues increase by \$377.6 million in FY 2022 due to the income tax rates and brackets specified by the bill, reflecting the impact of about one and one-half of a tax year. Future year estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2022 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	\$377.6	\$284.9	\$296.3	\$308.1	\$320.4
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	\$377.6	\$284.9	\$296.3	\$308.1	\$320.4

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

Local Effect: None.

Small Business Effect: Meaningful.

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 2021.

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

**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%	\$250,001-\$500,000	5.75%	\$300,001-\$600,000
6.00%	\$500,001-\$750,000	6.00%	\$600,001-\$850,000
6.50%	\$750,001-\$1,000,000	6.50%	\$850,001-\$1,150,000
7.00%	\$1,000,001-\$1,500,000	7.00%	\$1,150,001-\$1,600,000
7.50%	Excess of \$1,500,000	7.50%	Excess of \$1,600,000

State Revenues: The new State income tax rates and brackets under the bill take effect beginning in tax year 2021. As a result, general fund revenues will increase by \$377.6 million in fiscal 2022, which reflects the impact of about one and one-half of a tax year. **Exhibit 3** shows the estimated impact of the bill on State revenues.

Exhibit 3
State Revenue Impacts
(\$ in Millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State Revenues	\$377.6	\$284.9	\$296.3	\$308.1	\$320.4

State Expenditures: The bill requires the Comptroller to waive any penalty or interest imposed on an individual relating to the payment of estimated income taxes for calendar 2021 to the extent that the Comptroller determines that the interest or penalty would not have incurred but for an increase in the income tax rates for calendar 2021 under the bill. General fund expenditures for the Comptroller’s Office may increase minimally in fiscal 2022 in order to waive these penalties and interest and as a result of issuing new employer withholding tables and altering the personal income tax forms.

Small Business Impact: Small businesses such as partnerships, S corporations, limited liability companies, and sole proprietorships with higher net taxable incomes will be adversely impacted by the proposed bracket and rate changes.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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