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**By: Delegates Gordon and C. Davis**

Introduced and read first time: January 29, 1996

Assigned to: Ways and Means

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A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax Reform**

3 FOR the purpose of altering a certain tax rate under the Maryland income tax on  
4 individuals; altering the amount that an individual may deduct for certain  
5 exemptions to determine Maryland taxable income; altering the calculation of the  
6 county income tax; altering a requirement that the Comptroller prepare certain  
7 income tax tables; altering the calculation of a certain required distribution of  
8 income tax revenues to certain special taxing districts and municipal corporations;  
9 altering the rate of a certain tax imposed on certain entities; altering certain  
10 requirements for withholding from certain payments; providing for the application  
11 of this Act; and generally relating to State and county income taxes.

12 BY repealing and reenacting, with amendments,

13 Article - Tax - General  
14 Section 2-106, 2-607(a), 10-102.1(d)(1), 10-103(a), 10-105(a), 10-106, 10-211,  
15 10-604, 10-704, and 10-908(d) and (e)  
16 Annotated Code of Maryland  
17 (1988 Volume and 1995 Supplement)

18 BY repealing

19 Article - Tax - General  
20 Section 10-706  
21 Annotated Code of Maryland  
22 (1988 Volume and 1995 Supplement)

23 BY adding to

24 Article - Tax - General  
25 Section 10-706  
26 Annotated Code of Maryland  
27 (1988 Volume and 1995 Supplement)

28 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
29 MARYLAND, That the Laws of Maryland read as follows:

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1 **Article - Tax - General**

2 2-106.

3 (a) (1) In this section the following words have the meanings indicated.

4 (2) "Nonresident" has the meaning stated in § 10-101 of this article.

5 (3) "Resident" has the meaning stated in § 10-101 of this article.

6 (4) "Wages" has the meaning stated in § 10-905(e-1) of this article.

7 (b) (1) The Comptroller shall prepare income tax tables to show the income tax  
8 for an individual.

9 (2) The Comptroller shall prepare tables based on Maryland taxable income  
10 that provide for:

11 (i) income intervals not exceeding \$100 for Maryland taxable income;  
12 [and]

13 (ii) the State income tax due for each income interval; AND

14 (III) THE COUNTY INCOME TAX DUE FOR EACH INCOME INTERVAL.

15 (3) The [State] income tax for each interval is the whole dollar amount of  
16 tax for the income that is at the midway point of the interval.

17 (c) (1) The Comptroller shall prepare income tax withholding tables that show  
18 the income tax to be withheld from wages. The Comptroller may prepare separate tables  
19 for residents and nonresidents.

20 (2) The withholding tables shall provide for:

21 (i) wages for each withholding period allowable under § 10-909 of this  
22 article; and

23 (ii) the [State] income tax required to be withheld for a withholding  
24 period, after:

25 1. an adjustment is made for the exemptions for the period; and

26 2. if there is a separate table for nonresidents, an adjustment is  
27 made to allow the exhaustion of exemptions for a nonresident before any income tax is  
28 withheld.

29 (3) The total amounts required under the tables to be withheld during a  
30 taxable year shall approximate, as closely as possible, the total [State] income tax due on  
31 the wages for the year.

32 (d) (1) The Comptroller may prepare income tax percentage withholding  
33 schedules that show the percent of income tax to be withheld from wages. The  
34 Comptroller may prepare separate schedules for residents and nonresidents.

35 (2) The optional percentage withholding schedules shall provide for:

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1 (i) wages for each withholding period allowable under § 10-909 of this  
2 article; and

3 (ii) the percent of [State] income tax required to be withheld for the  
4 withholding period, after:

5 1. an adjustment is made for the exemptions for the period; and

6 2. if there is a separate schedule for nonresidents, an  
7 adjustment is made to allow the exhaustion of exemptions for a nonresident before any  
8 income tax is withheld.

9 (3) The total percentages required under the schedules to be withheld  
10 during a taxable year shall approximate, as closely as possible, the [State] income tax due  
11 on the wages for the year.

12 (e) At the option of the employer, withholdings may be made using either the  
13 withholding tables or the percentage withholding schedule.

14 2-607.

15 (a) After making the distributions required under §§ 2-604 through 2-606 of this  
16 subtitle, from the remaining income tax revenue from individuals, the Comptroller shall  
17 distribute to each special taxing district that received an income tax revenue distribution  
18 in fiscal year 1977 and to each municipal corporation an amount that, based on the  
19 certification of the Comptroller as to State income tax liability and county income tax  
20 liability of the residents of the district or municipal corporation, equals the greater of:

21 (1) [8.5%] 8.6% of the State income tax liability of those residents;

22 (2) 17% of the county income tax liability of those residents; or

23 (3) 0.37% of the Maryland taxable income of those residents.

24 10-102.1.

25 (d) (1) Except as provided in paragraph (2) of this subsection, the tax imposed  
26 under subsection (b) of this section is [5%] 4.75% of:

27 (i) the sum of each nonresident partner's distributive share of a  
28 partnership's nonresident taxable income;

29 (ii) the sum of each nonresident shareholder's pro rata share of an S  
30 corporation's nonresident taxable income; or

31 (iii) the sum of each nonresident member's distributive share of a  
32 limited liability company's nonresident taxable income.

33 10-103.

34 (a) Each county shall have a county income tax [measured by the State income  
35 tax] ON THE MARYLAND TAXABLE INCOME of:

36 (1) each resident, other than a fiduciary, who on the last day of the taxable  
37 year:

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1 (i) is domiciled in the county; or

2 (ii) maintains a principal residence or a place of abode in the county;

3 (2) each personal representative of an estate if the decedent was domiciled  
4 in the county on the date of the decedent's death;

5 (3) each resident fiduciary of:

6 (i) a trust that is principally administered in the county; or

7 (ii) a trust that is otherwise principally connected to the county and is  
8 not principally administered in the State; and

9 (4) except as provided in § 10-806(c) of this title, a nonresident who derives  
10 income from salary, wages, or other compensation for personal services for employment  
11 in the county.

12 10-105.

13 (a) The State income tax rate for an individual is:

14 (1) 2% of Maryland taxable income of \$1 through \$1,000;

15 (2) 3% of Maryland taxable income of \$1,001 through \$2,000;

16 (3) 4% of Maryland taxable income of \$2,001 through \$3,000; and

17 (4) [5%] 4.75% of Maryland taxable income in excess of \$3,000.

18 10-106.

19 (a) (1) Each county shall set, by ordinance or resolution, a TOP MARGINAL  
20 county income tax RATE equal to at least [20%] 1% but not more than [60%, to be  
21 applied to the State income tax for an individual] 3% OF MARYLAND TAXABLE  
22 INCOME.

23 (2) A TOP MARGINAL county income tax rate continues until the county  
24 changes the rate by ordinance or resolution.

25 (3) (i) A county may not increase its county income tax rate above [50%]  
26 2.5% until after the county has held a public hearing on the proposed act, ordinance, or  
27 resolution to increase the rate.

28 (ii) The county shall publish at least once each week for 2 successive  
29 weeks in a newspaper of general circulation in the county:

30 1. notice of the public hearing; and

31 2. a fair summary of the proposed act, ordinance, or resolution  
32 to increase the county income tax rate above [50%] 2.5%.

33 (4) Notwithstanding paragraph (1) or (2) of this subsection, inHoward  
34 County, the county income tax rate may be changed only by ordinance andnot by  
35 resolution.

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1 (B) THE COUNTY INCOME TAX RATE IS:

2 (1) 40% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR  
3 MARYLAND TAXABLE INCOME OF \$1 THROUGH \$1,000;

4 (2) 60% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR  
5 MARYLAND TAXABLE INCOME OF \$1,001 THROUGH \$2,000;

6 (3) 80% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR  
7 MARYLAND TAXABLE INCOME OF \$2,001 THROUGH \$3,000; AND

8 (4) THE TOP MARGINAL COUNTY INCOME TAX RATE FOR MARYLAND  
9 TAXABLE INCOME IN EXCESS OF \$3,000.

10 [(b)] (C) Except as provided in subsection [(c)] (D) of this section, if a county  
11 changes its TOP MARGINAL county income tax rate, the county shall:

12 (1) increase or decrease the rate in increments of [5 percentage points]  
13 ONE-QUARTER OF A PERCENTAGE POINT, effective on January 1 of the year that the  
14 county designates; and

15 (2) give the Comptroller notice of the rate change and the effective date of  
16 the rate change on or before July 1 prior to its effective date.

17 [(c)] (D) A county income tax rate in excess of [50%] 2.5% at the option of the  
18 county may be a multiple of [2 percentage points] ONE-TENTH OF A PERCENTAGE  
19 POINT above [50%] 2.5% instead of a multiple of [5 percentage points above 50%]  
20 ONE-QUARTER OF A PERCENTAGE POINT ABOVE 2.5%.

21 10-211.

22 Whether or not a federal return is filed, to determine Maryland taxable income, an  
23 individual other than a fiduciary may deduct as an exemption:

24 (1) [\$1,200] \$600 for each exemption that the individual may deduct in the  
25 taxable year to determine federal taxable income under § 151 of the Internal Revenue  
26 Code;

27 (2) an additional [\$1,200] \$600 for each dependent, as defined in § 152 of  
28 the Internal Revenue Code, who is at least 65 years old on the last day of the taxable year;

29 (3) an additional \$1,000 if the individual, on the last day of the taxable year,  
30 is at least 65 years old; and

31 (4) an additional \$1,000 if the individual, on the last day of the taxable year,  
32 is a blind individual, as described in § 10-208(c) of this subtitle.

33 10-604.

34 [An] EXCEPT AS OTHERWISE PROVIDED IN THIS SUBTITLE, AN individual shall  
35 compute the county income tax by applying the county tax rate [to the State income tax  
36 computed under § 10-601 or § 10-602 of this subtitle, as modified by the credits allowed  
37 under Subtitle 7 of this title against the county income tax] IN § 10-106 OF THIS TITLE TO  
38 MARYLAND TAXABLE INCOME.

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1 10-704.

2 (a) (1) An individual may claim a credit against the STATE income tax for a  
3 taxable year in the amount determined under [subsection (b)] SUBSECTION(B)(1) of this  
4 section for earned income.

5 (2) AN INDIVIDUAL MAY CLAIM A CREDIT AGAINST THE COUNTY  
6 INCOME TAX FOR A TAXABLE YEAR IN THE AMOUNT DETERMINED UNDER  
7 SUBSECTION (B)(2) OF THIS SECTION FOR EARNED INCOME.

8 (b) (1) Except as provided in paragraph [(2)] (3) of this subsection, the credit  
9 allowed AGAINST THE STATE INCOME TAX under [subsection (a)] SUBSECTION (A)(1)  
10 of this section is the lesser of:

11 (i) 50% of the earned income credit allowable for the taxable year  
12 under § 32 of the Internal Revenue Code; or

13 (ii) the State income tax for the taxable year.

14 (2) EXCEPT AS PROVIDED IN PARAGRAPH (3) OF THIS SUBSECTION, THE  
15 CREDIT ALLOWED AGAINST THE COUNTY INCOME TAX UNDER SUBSECTION (A)(2)  
16 OF THIS SECTION IS THE LESSER OF:

17 (I) 25% OF THE EARNED INCOME CREDIT ALLOWABLE FOR THE  
18 TAXABLE YEAR UNDER § 32 OF THE INTERNAL REVENUE CODE; OR

19 (II) THE COUNTY INCOME TAX FOR THE TAXABLE YEAR.

20 [(2)] (3) An individual who files an income tax return for a period of less  
21 than 1 year is allowed from the amount under [paragraph (1) of] this subsection, a  
22 fraction:

23 (i) the numerator of which is the number of months that the return  
24 covers; and

25 (ii) the denominator of which is 12.

26 [10-706.

27 (a) (1) A credit under § 10-701 of this subtitle is allowed against the total  
28 county and State income taxes.

29 (2) The county income tax is based on the amount of State income tax  
30 before the State income tax is reduced by the credit.

31 (b) (1) A credit under § 10-701.1, § 10-702, § 10-703, § 10-703.1, §10-704.1, §  
32 10-704.2, or § 10-704.3 of this subtitle is allowed against only the State income tax.

33 (2) The county income tax is based on the amount of State income tax  
34 before the State income tax is reduced by the credit.

35 (c) (1) A credit under § 10-704 of this subtitle:

36 (i) is allowed only against the State income tax; and

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1 (ii) operates to reduce the county income tax.

2 (2) The county income tax is based on the amount of State income tax after  
3 the State income tax is reduced by the credit.]

4 10-706.

5 (A) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION:

6 (1) A CREDIT ALLOWED UNDER THIS SUBTITLE IS ALLOWED AGAINST  
7 THE STATE INCOME TAX ONLY; AND

8 (2) THE COUNTY INCOME TAX IS BASED ON THE STATE INCOME TAX  
9 BEFORE THE STATE INCOME TAX IS REDUCED BY THE CREDIT.

10 (B) (1) A CREDIT UNDER § 10-701 OF THIS SUBTITLE IS ALLOWED AGAINST  
11 THE TOTAL COUNTY AND STATE INCOME TAXES.

12 (2) THE COUNTY INCOME TAX IS BASED ON THE AMOUNT OF STATE  
13 INCOME TAX BEFORE THE STATE INCOME TAX IS REDUCED BY THE CREDIT.

14 (C) (1) A CREDIT UNDER § 10-704(A)(1) OF THIS SUBTITLE IS ALLOWED  
15 AGAINST THE STATE INCOME TAX ONLY.

16 (2) A CREDIT UNDER § 10-704(A)(2) OF THIS SUBTITLE IS ALLOWED  
17 AGAINST THE COUNTY INCOME TAX ONLY.

18 10-908.

19 (d) A payor shall withhold from a payment subject to withholding of winnings  
20 derived from wagering:

21 (1) if the payee is a resident, [7.5%] 7.25% of the payment; and

22 (2) if the payee is a nonresident, [5%] 4.75% of the payment.

23 (e) The Board of Trustees of the State Retirement and Pension System shall  
24 withhold from a payment of a death benefit to a resident payee the sum of:

25 (1) [5%] 4.75% of the payment; and

26 (2) the county income tax rate applied to [5%] 4.75% of the payment.

27 SECTION 2. AND BE IT FURTHER ENACTED, That for calendar year 1997, the  
28 top marginal county income tax rate in each county, including BaltimoreCity, shall be 5%  
29 multiplied times the county income tax rate of at least 20% but not more than 60% as set  
30 by the county in accordance with § 10-106 of the Tax - General Article in effect before  
31 the effective date of this Act.

32 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect  
33 July 1, 1996 and shall be applicable to all taxable years beginning after December 31,  
34 1996.