
By: Delegates Hixson, Rawlings, Guns, Busch, Arnick, W. Baker, Bozman, Clagett, Conway, Curran, Dewberry, Dypski, Finifter, Franchot, Frank, Fry, Gordon, Hammen, Harrison, Hecht, Hurson, Klausmeier, Malone, Minnick, V. Mitchell, Mohorovic, Morhaim, Owings, Perry, Rudolph, Slade, Vallario, Wood, Branch, and B. Hughes

Introduced and read first time: February 9, 1996

Assigned to: Ways and Means

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 rate of a certain tax imposed on certain entities;
8 altering certain requirements for withholding from certain payments; providing for
9 the application of this Act; and generally relating to State and county income taxes.

10 BY repealing and reenacting, with amendments,

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

16 BY repealing

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

21 BY adding to

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

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

2

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:

3

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 10-102.1.

15 (d) (1) Except as provided in paragraph (2) of this subsection, the tax imposed
16 under subsection (b) of this section is [5% of] THE TOP MARGINAL STATE TAX RATE
17 FOR INDIVIDUALS UNDER § 10-105(A) OF THIS SUBTITLE APPLIED TO:

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

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

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

24 10-103.

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

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

29 (i) is domiciled in the county; or

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

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

33 (3) each resident fiduciary of:

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

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

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

4 10-105.

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

6 (1) 2% of Maryland taxable income of \$1 through \$1,000;

7 (2) 3% of Maryland taxable income of \$1,001 through \$2,000;

8 (3) 4% of Maryland taxable income of \$2,001 through \$3,000; and

9 (4) [5% of] FOR Maryland taxable income in excess of \$3,000:

10 (I) 4.95% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
11 1996 BUT BEFORE JANUARY 1, 1998;

12 (II) 4.85% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
13 1997 BUT BEFORE JANUARY 1, 1999; AND

14 (III) 4.75% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
15 1998.

16 10-106.

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

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

23 (3) (i) A county may not increase its county income tax rate above [50%]
24 2.5% until after the county has held a public hearing on the proposed act, ordinance, or
25 resolution to increase the rate.

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

28 1. notice of the public hearing; and

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

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

34 (B) THE COUNTY INCOME TAX RATE IS:

35 (1) 40% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
36 MARYLAND TAXABLE INCOME OF \$1 THROUGH \$1,000;

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

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

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

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

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

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

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

18 10-211.

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

21 (1) [\$1,200] for each exemption that the individual may deduct in the
22 taxable year to determine federal taxable income under § 151 of the Internal Revenue
23 Code:

24 (I) \$1,550 FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
25 1996 BUT BEFORE JANUARY 1, 1998;

26 (II) \$1,750 FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
27 1997 BUT BEFORE JANUARY 1, 1999; AND

28 (III) \$2,200 FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
29 1998;

30 (2) [an additional \$1,200] for each dependent, as defined in § 152 of the
31 Internal Revenue Code, who is at least 65 years old on the last day of the taxable year, AN
32 ADDITIONAL:

33 (I) \$1,550 FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
34 1996 BUT BEFORE JANUARY 1, 1998;

35 (II) \$1,750 FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
36 1997 BUT BEFORE JANUARY 1, 1999; AND

37 (III) \$2,200 FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
38 1998;

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

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

5 10-604.

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

11 10-704.

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

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

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

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

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

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

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

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

30 [(2)] (3) An individual who files an income tax return for a period of less
31 than 1 year is allowed from the amount under [paragraph (1) of] this subsection, a
32 fraction:

33 (i) the numerator of which is the number of months that the return
34 covers; and

35 (ii) the denominator of which is 12.

36 [10-706.

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

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

3 (b) (1) A credit under § 10-701.1, § 10-702, § 10-703, § 10-703.1, §10-704.1, §
4 10-704.2, or § 10-704.3 of this subtitle is allowed against only the State income tax.

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

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

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

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

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

12 10-706.

13 (A) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, A CREDIT ALLOWED
14 UNDER THIS SUBTITLE IS ALLOWED AGAINST THE STATE INCOME TAX ONLY.

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

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

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

21 10-908.

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

24 (1) if the payee is a resident, [7.5% of] A RATE EQUAL TO THE SUM OF
25 2.5% AND THE TOP MARGINAL STATE INCOME TAX RATE FOR INDIVIDUALS UNDER
26 § 10-105(A) OF THIS TITLE, APPLIED TO the payment; and

27 (2) if the payee is a nonresident, [5% of] THE TOP MARGINAL STATE
28 INCOME TAX RATE FOR INDIVIDUALS UNDER § 10-105(A) OF THIS TITLE, APPLIED TO
29 the payment.

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

32 (1) [5% of] THE TOP MARGINAL STATE INCOME TAX RATE FOR
33 INDIVIDUALS UNDER § 10-105(A) OF THIS TITLE APPLIED TO the payment; and

34 (2) the TOP MARGINAL county income tax rate applied to [5% of]the
35 payment.

HOUSE BILL 1152

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

6 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
7 July 1, 1996 and shall be applicable to all taxable years beginning after December 31,
8 1996.