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**By: Senators Cade, Hogan, McCabe, Madden, Stoltzfus, Boozer, Hafer, Munson,  
Roesser, Haines, Craig, Ferguson, Middlebrooks, Colburn, and Derr**

Introduced and read first time: February 2, 1996

Assigned to: Budget and Taxation

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A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax Rate Reduction**

3 FOR the purpose of altering a certain tax rate under the Maryland income tax on  
4 individuals; repealing a requirement that the counties including Baltimore City have  
5 a county income tax measured by the State income tax of residents domiciled or  
6 maintaining a principal residence or place of abode in the county; authorizing the  
7 counties including Baltimore City to impose a county income tax at not more than a  
8 certain rate on the Maryland taxable income of residents domiciled or maintaining  
9 a principal residence or place of abode in the county; altering a requirement that  
10 the Comptroller prepare certain income tax tables; altering the rate of a certain tax  
11 imposed on certain entities; altering certain requirements for withholding from  
12 certain payments; providing for the application of this Act; and generally relating to  
13 State and county income taxes.

14 BY repealing and reenacting, with amendments,

15 Article - Tax - General  
16 Section 2-106, 10-102.1(d)(1), 10-103(a), 10-105(a), 10-106, 10-604, 10-704, and  
17 10-908(d) and (e)  
18 Annotated Code of Maryland  
19 (1988 Volume and 1995 Supplement)

20 BY repealing

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

25 BY adding to

26 Article - Tax - General  
27 Section 10-706  
28 Annotated Code of Maryland  
29 (1988 Volume and 1995 Supplement)

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

3 **Article - Tax - General**

4 2-106.

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

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

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

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

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

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

13 (i) income intervals not exceeding \$100 for Maryland taxable income;

14 [and]

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

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

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

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

22 (2) The withholding tables shall provide for:

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

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

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

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

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

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

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1 (2) The optional percentage withholding schedules shall providefor:

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

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

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

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

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

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

15 10-102.1.

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

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

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

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

25 10-103.

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

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

30 (i) is domiciled in the county; or

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

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

34 (3) each resident fiduciary of:

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

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

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

6 10-105.

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

8 (1) 2% of Maryland taxable income of \$1 through \$1,000;

9 (2) 3% of Maryland taxable income of \$1,001 through \$2,000;

10 (3) 4% of Maryland taxable income of \$2,001 through \$3,000; and

11 (4) [5% of] FOR Maryland taxable income in excess of \$3,000:

12 (I) 4.75% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,  
13 1996 BUT BEFORE JANUARY 1, 1999;

14 (II) 4.6% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,  
15 1998 BUT BEFORE JANUARY 1, 2000; AND

16 (III) 4.5% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,  
17 1999.

18 10-106.

19 (a) (1) Each county THAT HAS A COUNTY INCOME TAX shall set, by ordinance  
20 or resolution, a county income tax RATE equal to [at least 20% but not more than 60%,  
21 to be applied to the State income tax for an individual] NOT MORE THAN 3%, TO BE  
22 APPLIED TO MARYLAND TAXABLE INCOME.

23 (2) A county income tax rate continues until the county changes the rate by  
24 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, in Howard  
34 County, the county income tax rate may be changed only by ordinance and not by  
35 resolution.

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1 (b) Except as provided in subsection (c) of this section, if a county changes its  
2 county income tax rate, the county shall:

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

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

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

12 10-604.

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

18 10-704.

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

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

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

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

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

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

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

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

37 [(2)] (3) An individual who files an income tax return for a period of less  
38 than 1 year is allowed from the amount under [paragraph (1) of] this subsection, a  
39 fraction:

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1 (i) the numerator of which is the number of months that the return  
2 covers; and

3 (ii) the denominator of which is 12.

4 [10-706.

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

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

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

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

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

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

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

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

18 10-706.

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

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

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

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

27 10-908.

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

30 (1) if the payee is a resident, [7.5% of] A RATE EQUAL TO THE SUM OF  
31 2.5% AND THE TOP MARGINAL STATE INCOME TAX RATE FOR INDIVIDUALS UNDER  
32 § 10-105(A) OF THIS TITLE, APPLIED TO the payment; and

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

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

3 (1) [5% of] THE TOP MARGINAL STATE INCOME TAX RATE FOR  
4 INDIVIDUALS UNDER § 10-105(A) OF THIS TITLE APPLIED TO the payment; and

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

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

11 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect  
12 July 1, 1996 and shall be applicable to all taxable years beginning after December 31,  
13 1996.