

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

Senate Bill 640 (Senator Pinsky, et al.)  
Budget and Taxation

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Individual Income Tax - Rates

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This bill alters the existing income tax brackets and adds additional brackets.

This bill is effective July 1, 1996, and applies to all tax years beginning after December 31, 1996.

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Fiscal Summary

**State Effect:** General fund revenues could increase an estimated \$408,000 in FY 1997; general fund expenditures could increase \$99,200. The income tax simulation model was used to determine out-year estimates.

(\$ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$0.4	\$4.3	\$11.8	\$20.2	\$27.5
GF Expenditures	0.1	0.0	0.0	0.0	0.0
Net Effect	\$0.3	\$4.3	\$11.8	\$20.2	\$27.5

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

**Local Effect:** Local revenues could increase an estimated \$222,000 in FY 1997. Expenditures would not be affected.

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Fiscal Analysis

**Bill Summary:** This bill does not affect the first two tax brackets. For joint filers, the 4% bracket is for taxable income from \$2,000 to \$10,000; the 5% bracket is from \$10,000 to \$150,000; a 6% bracket is added, from \$150,000 to \$275,000; a 6.5% bracket is added, from \$275,000 to \$400,000; and a 7% bracket is added for all taxable income over \$400,000.

For individuals, the 4% bracket is for taxable income from \$2,000 to \$5,000; the 5% bracket is from \$5,000 to \$100,000; a 6% bracket is added, from \$100,000 to \$175,000; a 6.5% bracket is added, from \$175,000 to \$250,000; and 7% bracket is added for all taxable income over \$250,000.

**State Revenues:** The income tax simulation model estimates that this bill would result in an estimated revenue increase of \$800,000 in tax year 1997. Exhibit 1 shows the tax year and fiscal year revenue increase from these changes. The tax year losses are distributed 51% to the first fiscal year and 49% to the second, as has been the recent pattern.

**Exhibit 1**  
**General Fund Revenue Increase from SB 640**  
(\$ in millions)

<u>Tax Year</u>	<u>Revenue Gain</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
1997	\$0.8	\$0.4	\$0.4			
1998	7.7		3.9	\$3.8		
1999	15.8			8.1	\$7.7	
2000	24.4				12.4	\$12.0
2001	30.4					15.5
	<b>FY Loss</b>	\$0.4	\$4.3	\$11.8	\$20.2	\$27.5

The proposed fiscal 1997 State budget is based on revenue estimates that do not account for this revenue increase.

**State Expenditures:** The Office of the Comptroller advises that expenditures of \$23,000 would be incurred for changes to the computer tax processing system. Printing and mailing new withholding books will cost an estimated \$99,200.

The Department of Fiscal Services advises that if other legislation is also enacted changing the Maryland individual income tax calculation, economies of scale regarding computer programming changes could be realized. This could reduce computer programming costs associated with this bill and other tax legislation.

**Local Revenues:** Local revenues would increase by an average of 54.5% of the State increase. The total local revenue increase is estimated at \$222,000 in fiscal 1997.

Additionally, counties with a greater number of taxpayers affected by the new brackets would receive a greater revenue increase, while revenues could actually decline for those counties with few taxpayers in the new brackets.

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**Information Source(s):** Office of the Comptroller (Revenue Administration Division),  
Department of Fiscal Services

**Fiscal Note History:** First Reader - March 14, 1996  
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