
By: Delegates Gordon and C. Davis

Introduced and read first time: January 27, 1997

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 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, 10-706, and 10-908(d) and (e)

16 Annotated Code of Maryland

17 (1988 Volume and 1996 Supplement)

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

20 **Article - Tax - General**

21 2-106.

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

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

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

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

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

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

2

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

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

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

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

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

10 (2) The withholding tables shall provide for:

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

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

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

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

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

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

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

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

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

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

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

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

3

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

3 2-607.

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

10 (1) [8.5%] 8.6% of the State income tax liability of those residents;

11 (2) 17% of the county income tax liability of those residents; or

12 (3) 0.37% of the Maryland taxable income of those residents.

13 10-102.1.

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

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

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

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

22 10-103.

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

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

27 (i) is domiciled in the county; or

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

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

31 (3) each resident fiduciary of:

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

33 (ii) a trust that is otherwise principally connected to the county and is
34 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%] 4.75% of Maryland taxable income in excess of \$3,000.

10 10-106.

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

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

17 (3) (i) A county may not increase its county income tax rate above [50%]
18 2.5% until after the county has held a public hearing on the proposed act, ordinance, or
19 resolution to increase the rate.

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

22 1. notice of the public hearing; and

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

25 (4) Notwithstanding paragraph (1) or (2) of this subsection, in Howard
26 County, the county income tax rate may be changed only by ordinance and not by
27 resolution.

28 (B) THE COUNTY INCOME TAX RATE IS:

29 (1) 40% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
30 MARYLAND TAXABLE INCOME OF \$1 THROUGH \$1,000;

31 (2) 60% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
32 MARYLAND TAXABLE INCOME OF \$1,001 THROUGH \$2,000;

33 (3) 80% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
34 MARYLAND TAXABLE INCOME OF \$2,001 THROUGH \$3,000; AND

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

5

1 [(b)] (C) Except as provided in subsection [(c)] (D) of this section, if a county
2 changes its TOP MARGINAL 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)] (D) A county income tax rate in excess of [50%] 2.5% at the option of the
9 county may be a multiple of [2 percentage points] ONE-TENTH OF A PERCENTAGE
10 POINT 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 10-211.

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

15 (1) [\$1,200] \$600 for each exemption that the individual may deduct in the
16 taxable year to determine federal taxable income under § 151 of the Internal Revenue
17 Code;

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

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

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

24 10-604.

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

30 10-704.

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

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

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

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

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

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

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

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

10 [(2)] (3) An individual who files an income tax return for a period of less
11 than 1 year is allowed from the amount under [paragraph (1) of] this subsection, a
12 fraction:

13 (i) the numerator of which is the number of months that the return
14 covers; and

15 (ii) the denominator of which is 12.

16 10-706.

17 (a) Except as otherwise provided in this section[:

18 (1)], a credit allowed under this subtitle is allowed against the State income
19 tax only [; and

20 (2) the county income tax is based on the State income tax before the State
21 income tax is reduced by the credit].

22 (b) [(1)] A credit under § 10-701 of this subtitle is allowed against the total
23 county and State income taxes.

24 [(2) The county income tax is based on the amount of State income tax
25 before the State income tax is reduced by the credit.]

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

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

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

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

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

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

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1 10-908.

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

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

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

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

8 (1) [~~5%~~] 4.75% of the payment; and

9 (2) the TOP MARGINAL county income tax rate applied to [~~5% of~~] the
10 payment.

11 SECTION 2. AND BE IT FURTHER ENACTED, That for calendar year 1998, the
12 top marginal county income tax rate in each county, including Baltimore City, shall be 5%
13 multiplied times the county income tax rate of at least 20% but not more than 60% as set
14 by the county in accordance with § 10-106 of the Tax - General Article in effect before
15 the effective date of this Act.

16 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
17 July 1, 1997 and shall be applicable to all taxable years beginning after December 31,
18 1997.