
By: Delegates Taylor, Rawlings, Owings, Harrison, E. Burns, Genn, Fry, Proctor, Howard, Dembrow, Valderrama, Minnick, Boston, Rudolph, Guns, Barve, Love, Dewberry, Curran, Vallario, Bozman, Dypski, Gordon, Weir, V. Mitchell, Mossburg, Hixson, Arnick, Hurson, Conway, Busch, Linton, Preis, Poole, Hecht, Heller, Morhaim, Donoghue, Frank, W. Baker, Franchot, DeCarlo, C. Davis, Wood, Krysiak, and Crumlin

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 calculation of the county income tax; altering a requirement
5 that the Comptroller prepare certain income tax tables; altering the rate of a certain
6 tax imposed on certain entities; altering certain requirements for withholding from
7 certain payments; requiring the Comptroller to issue certain income tax withholding
8 tables reflecting the income tax rate reduction under this Act; providing for the
9 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, 10-604, 10-704,

13 10-706, and 10-908(d) and (e)

14 Annotated Code of Maryland

15 (1988 Volume and 1996 Supplement)

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF

17 MARYLAND, That the Laws of Maryland read as follows:

18 **Article - Tax - General**

19 2-106.

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

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

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

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

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

2

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

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

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

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

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

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

12 (2) The withholding tables shall provide for:

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

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

- 17 1. an adjustment is made for the exemptions for the period; and
18 2. if there is a separate table for nonresidents, an adjustment is
19 made to allow the exhaustion of exemptions for a nonresident before any income tax is
20 withheld.

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

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

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

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

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

- 32 1. an adjustment is made for the exemptions for the period; and
33 2. if there is a separate schedule for nonresidents, an
34 adjustment is made to allow the exhaustion of exemptions for a nonresident before any
35 income tax is withheld.

3

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

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

6 10-102.1.

7 (d) (1) Except as provided in paragraph (2) of this subsection, the tax imposed
 8 under subsection (b) of this section is [5% of] THE TOP MARGINAL STATE TAX RATE
 9 FOR INDIVIDUALS UNDER § 10-105(A)(4) OF THIS SUBTITLE APPLIED TO:

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

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

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

16 10-103.

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

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

21 (i) is domiciled in the county; or

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

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

25 (3) each resident fiduciary of:

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

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

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

32 10-105.

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

34 (1) 2% of Maryland taxable income of \$1 through \$1,000;

35 (2) 3% of Maryland taxable income of \$1,001 through \$2,000;

4

1 (3) 4% of Maryland taxable income of \$2,001 through \$3,000; and

2 (4) [5% of] FOR Maryland taxable income in excess of \$3,000:

3 (I) 4.85% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
4 1997 BUT BEFORE JANUARY 1, 1999;

5 (II) 4.70% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
6 1998 BUT BEFORE JANUARY 1, 2000; AND

7 (III) 4.50% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
8 1999.

9 10-106.

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

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

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

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

21 1. notice of the public hearing; and

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

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

27 (B) THE COUNTY INCOME TAX RATE IS:

28 (1) 40% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
29 MARYLAND TAXABLE INCOME OF \$1 THROUGH \$1,000;

30 (2) 60% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
31 MARYLAND TAXABLE INCOME OF \$1,001 THROUGH \$2,000;

32 (3) 80% OF THE TOP MARGINAL COUNTY INCOME TAX RATE FOR
33 MARYLAND TAXABLE INCOME OF \$2,001 THROUGH \$3,000; AND

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

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

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

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

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

10 10-604.

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

16 10-704.

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

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

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

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

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

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

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

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

35 [(2)] (3) An individual who files an income tax return for a period of less
36 than 1 year is allowed from the amount under [paragraph (1) of] this subsection, a
37 fraction:

38 (i) the numerator of which is the number of months that the return
39 covers; and

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1 (ii) the denominator of which is 12.

2 10-706.

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

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

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

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

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

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

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

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

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

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)(4) 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)(4) OF THIS TITLE, APPLIED
29 TO 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)(4) OF THIS TITLE APPLIED TO the payment; and

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

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1 SECTION 2. AND BE IT FURTHER ENACTED, That for calendar year 1998, the
2 top marginal county income tax rate in each county, including Baltimore City, 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 the Comptroller shall
7 issue new employer withholding tables, to be effective January 1 of each taxable year,
8 reflecting the income tax rate reduction for that taxable year as enacted under Section 1
9 of this Act.

10 SECTION 4. AND BE IT FURTHER ENACTED, That this Act shall take effect
11 July 1, 1997 and shall be applicable to all taxable years beginning after December 31,
12 1997.