

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 500 (Delegates Rawlings and Healey)
 Ways and Means

Individual Income Tax - Rates

This bill establishes a 6% income tax bracket for single taxpayers with Maryland taxable income over \$100,000 and for married taxpayers filing jointly, heads of household, or qualifying widow(er) with Maryland taxable income over \$150,000. The 6% bracket is effective for tax years 2003 through 2005.

The bill also requires the Comptroller to issue new employer withholding tables to be effective July 1, 2003, and to waive any penalty or interest imposed on an individual relating to the payment of estimated income taxes for calendar 2003 to the extent that the Comptroller determines that the interest or penalty would not have incurred but for an increase in the income tax rates for calendar 2003 under the bill.

The bill takes effect July 1, 2003, and applies to all taxable years beginning after December 31, 2002.

Fiscal Summary

State Effect: General fund revenue increase of approximately \$347.4 million in FY 2004, which reflects the impact of one and one-half tax years. Future year increases reflect estimated taxable income. Expenditure increase in FY 2003 of approximately \$147,500 for printing and mailing new withholding tables. Expenditure increases in FY 2004, FY 2006, and FY 2007 for removing the new bracket from the income tax processing system.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$0	\$347,400,000	\$261,000,000	\$137,200,000	\$0
GF Expenditure	147,500	17,000	0	180,600	18,500
Net Effect	(\$147,500)	\$347,383,000	\$261,000,000	\$137,019,400	(\$18,500)

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

Local Effect: None. The bill does not alter any local income tax rates.

Small Business Effect: Minimal.

Analysis

Current Law: As a result of tax relief legislation enacted in 1997 and 1998, the top marginal income tax rate declined from tax year 1998 through 2002. **Exhibit 1** shows Maryland's State income tax rates for tax year 2002. The top rate, which had been 5% in 1997, declined to 4.85% for tax years 1999 and 2000, to 4.8% for tax year 2001, and to 4.75% for tax year 2002 and beyond.

Exhibit 1 Maryland State Income Tax Rates Effective January 1, 2002

<u>Maryland Taxable Income</u>		
<u>Over</u>	<u>But Not Over</u>	<u>Rate</u>
\$ 0	\$1,000	2% of Maryland taxable income
1,000	2,000	3% of excess over \$1,000
2,000	3,000	4% of excess over \$2,000
3,000	---	4.75% of excess over \$3,000

Background: Chapter 2 of the first Special Session of 1992 established a temporary 6% income tax bracket for single taxpayers with Maryland taxable income in excess of \$100,000, and for married taxpayers filing jointly, heads of household, or surviving spouses with Maryland taxable income over \$150,000. The 6% bracket was in effect until December 31, 1994.

State Revenues: **Exhibit 2** shows the additional revenues that would have resulted from the 6% bracket proposed by the bill, had it been in effect for tax year 2001.

Exhibit 2
Effect of 6% Income Tax Bracket (TY 2001)

<u>Filing Status</u>	<u># of Returns</u>	<u>Taxable Income</u>	<u>Additional Tax w/ 6% Bracket</u>
Single	15,200	\$3,680,250,096	\$27,003,126
Married Filing Jointly	65,419	24,755,548,635	186,783,733
Married Filing Separately	1,687	523,593,220	4,436,165
Head of Household	1,360	495,999,044	3,649,988
Qualifying Widow(er)	45	17,842,990	138,662
Dependent	<u>302</u>	<u>201,902,837</u>	<u>2,146,285</u>
Total	84,013	\$29,675,136,822	\$224,157,960

Based on historical data and the current revenue estimate, the number of taxpayers subject to the new 6% bracket would increase by 9% annually, and the taxable income subject to the new rate would decrease by 0.3% in tax year 2002, increase by 7.6% in tax year 2003, and increase by about 10% in tax years 2004 and 2005. As a result, income tax revenues would increase by approximately \$223.5 million in tax year 2003, \$247.6 million in tax year 2004, and \$274.3 million in tax years 2004 and 2005. **Exhibit 3** shows the impact of this estimate by fiscal year.

Exhibit 3
Impact of HB 500, By Fiscal Year

<u>Fiscal Year</u>	<u>Additional Revenue (in millions)</u>
2004 ¹	\$347.3
2005 ²	\$261.0
2006 ³	\$137.2

¹Includes all of tax year 2003 and one half of tax year 2004.

²Includes one half of tax year 2005 and one half of tax year 2005.

³Includes one half of tax year 2005.

Exhibit 4 shows the impact of the bill, in terms of both Maryland and federal income taxes, on a single taxpayer with gross income of \$125,000, and a married couple with two dependents, filing jointly with gross income of \$175,000. It is assumed that the single taxpayer claims \$8,000 in itemized deductions and the family claims \$10,000 in itemized deductions.

**Exhibit 4
Effect of HB 500**

	<u>Single</u>			<u>Family of Four</u>		
	<u>Current Law</u>	<u>HB 500</u>	<u>Change</u>	<u>Current Law</u>	<u>HB 500</u>	<u>Change</u>
Gross Income	\$125,000	\$125,000		\$175,000	\$175,000	
Taxable Income	\$114,600	\$114,600		\$155,400	\$155,400	
State Taxes	\$5,391	\$5,574	\$183	\$7,329	\$7,397	\$68
Federal Taxable Income	\$108,609	\$108,427		\$145,671	\$145,604	
Federal Taxes	\$26,898	\$26,843	(\$55)	\$34,112	\$34,092	(\$20)
Total Taxes	\$32,289	\$32,416	\$128	\$41,441	\$41,488	\$47

State Expenditures: Expenditures for the Comptroller could increase by approximately \$147,500 in fiscal 2003 as a result of issuing new employer withholding tables. This includes printing (\$78,983), postage expenses (\$59,976), and data processing expenses (\$8,500). Expenditures would increase by an estimated \$180,561 in fiscal 2006 as a result of eliminating the 6% bracket and includes printing (\$91,433), postage expenses (\$79,828), and data processing expenses (\$9,300). Expenditures would increase by approximately \$17,000 in fiscal 2004 and by \$18,500 in fiscal 2007 for adding and removing the 6% bracket from the returns processing system.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2003
ncs/jr

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510