

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

House Bill 1347 (Delegates Healey and Hixson)  
 Ways and Means

**Individual Income Tax - Rates**

This bill establishes a 6% income tax bracket for single taxpayers with Maryland taxable income over \$200,000 and for married taxpayers filing jointly, heads of household, or qualifying widow(er) with Maryland taxable income over \$250,000. The 6% bracket is effective for tax years 2004 through 2006.

The bill also requires the Comptroller to issue new employer withholding tables to be effective July 1, 2004, and to waive any penalty or interest imposed on an individual relating to the payment of estimated income taxes for calendar 2004 to the extent that the Comptroller determines that the interest or penalty would not have been incurred but for an increase in the income tax rates for calendar 2004 under the bill.

The bill takes effect July 1, 2004 and applies to tax years 2004 through 2006.

**Fiscal Summary**

**State Effect:** General fund revenue increase of approximately \$270.6 million in FY 2005, which reflects the impact of one and one-half tax years. Future year increases reflect estimated taxable income. Administrative expenditure increase in FY 2004 of approximately \$147,500 for printing and mailing new withholding tables and approximately \$156,400 in FY 2006 for removing the new bracket.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$0	\$270.6	\$195.9	\$101.2	\$0
SF Expenditure	.1	0	.2	0	0
Net Effect	(\$.1)	\$270.6	\$195.7	\$101.2	\$0

*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.

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### Analysis

**Current Law:** Exhibit 1 shows Maryland's State income tax rates for tax year 2003.

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

Maryland Taxable Income		<u>Rate</u>
<u>Over</u>	<u>But Not Over</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

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**Background:** Chapter 2 of the first Special Session of 1992 established a temporary 6% income tax bracket for income in excess of \$100,000 for single taxpayers with Maryland taxable income, and for income over \$150,000 for married taxpayers filing jointly, heads of household, or surviving spouses with Maryland taxable income. 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, had it been in effect for tax year 2001.

**Exhibit 2**  
**Effect of HB 1347**  
**(Tax Year 2001)**

<u>Filing Status</u>	<u>Number of Returns</u>	<u>Taxable Income</u>	<u>Additional Tax w/ HB 1347 Rates</u>
Individual, Married filing separately	4,347	\$2,736,965,489	\$23,344,569
All others	<u>27,351</u>	<u>18,002,993,713</u>	<u>139,565,546</u>
<b>Total</b>	<b>2,534,710</b>	<b>\$20,739,959,202</b>	<b>\$162,910,115</b>

Income tax revenues would increase by approximately \$175.9 million in tax year 2004. **Exhibit 3** shows the impact of this estimate by fiscal year.

**Exhibit 3**  
**Impact of HB 1347, By Fiscal Year**  
**(\$ in millions)**

<u>Fiscal Year</u>	<u>Additional Revenue</u>	<u>Additional Revenue by Tax Year</u>	<u>Taxable Income Projected Growth Rate</u>
2002	--	--	
2003	--	--	(4.4%)
2004	--	\$175.9	4.4%
2005 <sup>1</sup>	\$270.6	189.3	8.2%
2006 <sup>2</sup>	195.9	202.5	7.6%
2007 <sup>3</sup>	101.2		7.0%

<sup>1</sup>Includes all of tax year 2004 and one-half of tax year 2005.

<sup>2</sup>Reflects one-half of tax year 2005 and one-half of tax year 2006.

<sup>3</sup> Reflects one-half of tax year 2006.

Legislative Services advises that these estimates are dependent on future Maryland economic growth. Five-year forecasts for economic growth are typically subject to substantial error. To the extent that economic conditions change in this five-year period

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such as an unpredicted recession, the actual revenue generated by the provisions of this bill will be substantially different. In addition, these estimates assume that the taxpayers who anticipate a tax increase under the provisions of this bill do not alter behavior to avoid the tax increase. This behavior includes changing residence to a nearby state with an income tax reciprocity agreement. To the extent that this occurs, general fund revenue increases will be less.

**Exhibit 4** shows the impact of the bill, in terms of both Maryland and federal income taxes, on a married couple with two dependents, filing jointly with a gross income of \$325,000 and \$2.7 million and a single filer with a gross income of \$275,000 and \$675,000. Based on 2001 Internal Revenue Service (IRS) data for Maryland, it is assumed that these taxpayers itemize deductions. The amount of the deductions is based on the itemized deductions reported by the 2001 IRS data for different income groups. For federal tax purposes, taxpayers who itemize can itemize the amount of additional State taxes paid. This will decrease federal tax liability as shown in Exhibit 4. According to the Comptroller's Office, in tax year 2002 there were 13,400 returns that had at least a gross income above \$675,000 and 2,676 returns with gross incomes over \$2.7 million.

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**Exhibit 4**  
**Effect of HB 1347**  
**Net Change in Tax Burden**

**Single**

**Change in Taxes Paid**

<u><b>Income</b></u>	<u><b>State</b></u>	<u><b>Federal</b></u>	<u><b>Net Change</b></u>
\$275,000	\$632	(\$209)	\$423
675,000	5,357	(1,875)	3,482

**Joint, Family of Four**

\$325,000	\$447	(\$147)	\$300
2.7 million	28,571	(10,000)	18,571

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**State Expenditures:** Expenditures at the Comptroller's Office could increase by approximately \$147,500 in fiscal 2004 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 \$156,400 in fiscal 2006 as a result of eliminating the 6% bracket.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 8, 2004  
ncs/mdr

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