

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 478 (Senator Jones, *et al.*)  
 Budget and Taxation

Millionaires' Tax Surcharge

This bill establishes a separate income tax rate for taxpayers whose taxable income exceeds \$500,000. All taxable income for these taxpayers is taxed at 7.75%. The bill does not change the existing tax brackets for taxpayers with taxable incomes of less than \$500,000.

The bill also requires the Comptroller 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 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 and beyond.

Fiscal Summary

**State Effect:** General fund revenue increase of approximately \$455.7 million in FY 2005, which reflects the impact of one and one-half tax years. Future year increases reflect estimated taxable income. Expenditure increase in FY 2005 of approximately \$147,500 for printing and mailing new withholding tables.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$455.7	\$330.6	\$355.4	\$382.0	\$410.7
GF Expenditure	.1	0	0	0	0
Net Effect	\$455.5	\$330.6	\$355.4	\$382.0	\$410.7

*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: None.

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### Analysis

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

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

Maryland Taxable Income		
<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

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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 and for income over \$150,000 for married taxpayers filing jointly, heads of household, or surviving spouses. The 6% bracket was in effect until December 31, 1994.

**State Revenues:** Exhibit 2 shows the additional revenues that would have resulted from the 7.75% bracket proposed by the bill, had it been in effect for tax year 2002.

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#### Exhibit 2 Effect of SB 478 Income Tax Brackets (TY 2002)

<u># of Returns</u>	<u>Taxable Income</u>	<u>Additional Tax w/ SB 478 Rates</u>
7,393	\$8,536,111,855	\$256,083,408

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Based on historical data and the current revenue estimate, taxable income for taxpayers with taxable income over \$500,000 is estimated to increase by 7.5% annually for tax years 2003 through 2009. As a result, income tax revenues would increase by

approximately \$296.4 million in tax year 2004. **Exhibit 3** shows the impact of this estimate by fiscal year.

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**Exhibit 3**  
**Impact of SB 478, By Fiscal Year**

<u>Fiscal Year</u> <sup>2</sup>	<u>Additional Revenue By Fiscal Year (\$ in millions)</u>	<u>Additional Revenue By Tax Year</u>
2004	-	\$296.4
2005 <sup>1</sup>	\$455.7	318.6
2006	330.6	342.5
2007	355.4	368.2
2008	382.0	395.8
2009	410.7	425.5

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

<sup>2</sup>Except for fiscal 2005, reflects one-half of prior tax year and one-half of current tax year.

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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 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 increases. This behavior includes changing residency 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 \$2.7 million and a single filer with a gross income of \$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 income groups for taxpayers with between \$500,000 and \$1 million in gross income and for taxpayers with over a \$1 million in gross income. 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 \$625,000 and 2,676 returns with gross incomes over \$2.7 million.

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**Exhibit 4**  
**Effect of SB 478**

<u>Taxpayer</u>	<u>Gross Income</u>	<u>SB 478 Tax Increase</u>	<u>Federal Tax</u>	<u>Net Change</u>
Single	\$675,000	\$18,911	(\$6,619)	\$12,292
Joint, Family of Four	\$2,700,000	\$76,124	(\$26,643)	\$49,481

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**State Expenditures:** Expenditures for the Comptroller could increase by approximately \$147,500 in fiscal 2005 as a result of issuing new employer withholding tables. This includes printing (\$78,983), postage expenses (\$59,976), and data processing expenses (\$8,500).

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1061 (Delegate Jones, *et al.*) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 23, 2004  
ncs/mdr

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