SB 560

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 560 (Senator Pipkin, *et al.*)
Budget and Taxation

Income Tax - Rate Reduction for Individuals

This bill decreases the top marginal personal State income tax rate from 4.75% to: 4.6% in tax year 2007; 4.4% in tax year 2008; and 4.275% in tax year 2009 and beyond.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues would decrease by $109.3 million in FY 2007, which reflects the impact of one-half of a tax year. Future years reflect annualization and estimated taxable income. General fund expenditures would increase by $58,300 annually in FY 2007 through 2009 for the printing and mailing of new withholding tables.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	($109.3)	($378.8)	($658.0)	($798.5)	($841.1)
GF Expenditure	.1	.1	.1	0	0
Net Effect	($109.3)	($378.8)	($658.1)	($798.5)	($841.1)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

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

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

Maryland Taxable Income		
Over	**But Not Over**	**Rate**
$ 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 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.

Tax relief legislation enacted in 1997 and 1998 decreased the top marginal State income tax rate. 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. This reduction in the top marginal rate will provide State residents with a $364 million tax savings in tax year 2007.

State Revenues: The bill decreases the top marginal personal income tax rate beginning in tax year 2007. As a result, general fund revenues would decrease by approximately $218.6 million in tax year 2007. One-half of the impact of tax year 2007 would occur in fiscal 2007 through lower withholding and estimated payments. As a result, general fund revenues would decrease by $109.3 million in fiscal 2007. Future years reflect the impact of one-half the prior tax year and one-half the current tax year.

This estimate is based on the amount of net taxable income in tax year 2004. Net taxable personal income subject to tax at the 4.75% rate in tax year 2004 totaled $116.3 billion. Based on the March Board of Revenue estimates, taxable income is estimated to increase by 9.4% in tax year 2005, 8.2% in tax year 2006, 5.9% in tax year 2007, 5.7% in tax year 2008, 6.2% in tax year 2009, 5.5% in tax year 2010, and 5.2% in tax year 2011.

State Expenditures: Expenditures for the Comptroller's Office could increase by $58,300 in fiscal 2007, 2008, and 2009 as a result of issuing new employer withholding tables. This includes printing ($16,300) and postage expenses ($42,000).

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships file under the personal income tax and would be positively impacted from decreased tax liabilities.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 21, 2006
ncs/hlb

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