HB 1420

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1420 (Delegates Hixson and Barve)
Ways and Means

Individual Income Tax - Rates

This bill establishes new income tax brackets and rates. The new rates would range from 3% to 6% of net taxable income as specified by the bill.

The bill takes effect July 1, 2007 and applies to tax years 2008 and beyond.

Fiscal Summary

State Effect: General fund revenues would increase by $13.5 million in FY 2008, which reflects the impact of one-half of a tax year. Future year revenues reflect annualization and estimated taxable income. General fund expenditures would increase by $68,000 in FY 2008 due to implementation costs at the Comptroller's Office.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	$13.52	$27.72	$29.10	$30.56	$32.08
GF Expenditure	.07	0	0	0	0
Net Effect	$13.45	$27.72	$29.10	$30.56	$32.08

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

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

Small Business Effect: Meaningful.

Analysis

Bill Summary/Current Law: **Exhibit 1** shows the current State income tax rates. **Exhibit 2** lists the tax brackets proposed by the bill. The tax brackets for all other individuals include (1) joint returns; and (2) individuals who qualify as head of households or as a widower.

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

Exhibit 2
Maryland State Income Tax Rates
as Proposed by HB 1420

Single, Dependent Filer, Married Filing Separate			All Others		
Over	**But Not Over**	**Rate**	**Over**	**But Not Over**	**Rate**
$0	$5,000	3% of Maryland taxable income	0	$7,500	3% of Maryland taxable income
5,000	15,000	4% of excess over $5,000	7,500	22,500	4% of excess over $7,500
15,000	150,000	4.75% of excess over $15,000	22,500	225,000	4.75% of excess over $22,500
150,000	---	6% of excess over $150,000	225,000	---	6% of excess over $225,000

State Revenues: The new tax rates and brackets would be in effect beginning tax year 2008. General fund revenues would increase by $27.0 million in tax year 2008. One-half of this increase would occur in fiscal 2008 due to increased withholdings. As a result, general fund revenues would increase by $13.5 million in fiscal 2008. Future year revenue increases reflect annualization and estimated growth in net taxable income and would total $27.7 million in fiscal 2009, $29.1 million in fiscal 2010, $30.6 million in fiscal 2011, and $32.1 million in fiscal 2012.

Exhibit 3 shows the average change in State income tax liability for different levels of net taxable income.

Exhibit 3
Effect of HB 1420
Average Change in Taxes Paid

Net Taxable Income	Single Return	Joint Return
Less than $10,000	($34)	($39)
$10,001 to $25,000	(105)	(160)
$25,001 to $150,000	(110)	(191)
$150,001 to $250,000	362	(147)
over $250,000	8,065	17,870

State Expenditures: General fund expenditures at the Comptroller's Office would increase by $68,040 in fiscal 2008 as a result of issuing new employer withholding tables. This includes printing ($24,840), postage expenses ($41,400), and data processing expenses ($1,800).

Small Business Impact: Small businesses that are partnerships, S corporations, limited liability corporations, and sole proprietorships would be meaningfully impacted by the bill. Small businesses with lower amounts of net taxable income would benefit from less tax liability while businesses with higher amounts of taxable income would be negatively impacted.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 19, 2007
mll/hlb

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