

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 1346
Ways and Means

Graduated Income Tax Reform

This bill (1) increases specified State income tax rates and establishes new tax brackets; (2) applies the new tax bracket structure to all taxpayers regardless of filing status by eliminating the separate rate structure for joint filers; and (3) increases the maximum value of the standard deduction to equal \$3,000 for all single taxpayers and \$6,000 for all taxpayers filing jointly.

The bill takes effect July 1, 2012, and applies to tax year 2012 and beyond.

Fiscal Summary

State Effect: General fund revenues increase by \$848.9 million in FY 2013 due to the income tax rates specified by the bill, net of the increased value in the standard deduction, which reflects revenues from one and one-half tax years. Future year revenue estimates reflect annualization and the current income tax revenue forecast. Expenditures are not affected.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	\$848.9	\$644.6	\$730.1	\$823.8	\$911.7
Expenditure	0	0	0	0	0
Net Effect	\$848.9	\$644.6	\$730.1	\$823.8	\$911.7

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

Local Effect: Local revenues decrease by \$36.4 million in FY 2013 and by \$25.8 million in FY 2017. Montgomery County expenditures for its earned income credit (EIC) program may increase beginning in FY 2014.

Small Business Effect: Meaningful.

Analysis

Current Law/Bill Summary:

Income Tax Rates

Exhibits 1 and 2 show the State income tax rates under current law and as proposed by the bill.

Exhibit 1 **Maryland State Income Tax Rates** **Current Law**

Single, Dependent Filer, Married Filing Separate	Joint, Head of Household, Widower		
Rate	Maryland Taxable Income	Rate	Maryland Taxable Income
2.00%	\$1-\$1,000	2.00%	\$1-\$1,000
3.00%	\$1,001-\$2,000	3.00%	\$1,001-\$2,000
4.00%	\$2,001-\$3,000	4.00%	\$2,001-\$3,000
4.75%	\$3,001-\$150,000	4.75%	\$3,001-\$200,000
5.00%	\$150,001-\$300,000	5.00%	\$200,001-\$350,000
5.25%	\$300,001-\$500,000	5.25%	\$350,001-\$500,000
5.50%	Excess of \$500,000	5.50%	Excess of \$500,000

Exhibit 2 **Maryland State Income Tax Rates** **Proposed**

Rate	All Taxpayers
Rate	Maryland Taxable Income
2.0%	\$1-\$5,000
3.0%	\$5,001-\$10,000
4.0%	\$10,001-\$20,000
5.0%	\$20,001-\$30,000
5.5%	\$30,001-\$100,000
6.0%	\$100,001-\$300,000
6.5%	\$300,001-\$500,000
7.0%	\$500,001-\$1,000,000
7.5%	Excess of \$1,000,000

Standard Deduction

For State income tax purposes, individuals, except fiduciaries, may elect to either take the standard deduction or, if the taxpayer itemized deductions for federal income tax purposes, itemize qualifying expenses. Generally, an individual would elect to take the standard deduction if the individual does not have qualifying expenses that can be itemized in excess of the standard deduction. In tax year 2008, 1.4 million or 51% of all tax returns claimed the standard deduction. Of the 1 million taxable returns claiming the standard deduction, about two-thirds of the returns had Maryland adjusted gross income (MAGI) of less than \$35,000.

The value of the standard deduction is equal to 15% of MAGI subject to minimum and maximum values depending on filing status, as shown in **Exhibit 3**. The bill increases the maximum standard deduction by \$1,000 for single filers and by \$2,000 for joint filers.

Exhibit 3 **State Standard Deduction**

Single, Dependent Filer, Married Filing Separately		Joint, Head of Household, Widower	
<u>MAGI</u>	<u>Deduction</u>	<u>MAGI</u>	<u>Deduction</u>
Under \$10,000	\$1,500	Under \$20,000	\$3,000
\$10,000-\$13,333	15%	\$20,000-\$26,667	15%
Over \$13,333	\$2,000	Over \$26,667	\$4,000

State Fiscal Effect: The bill establishes new income tax rates beginning in tax year 2012 and increases the maximum value of the standard deduction. As a result, fiscal 2013 revenues increase by \$848.9 million, reflecting revenues from one and one-half tax years. **Exhibit 4** shows the fiscal impact of the bill in fiscal 2013 through 2017.

Exhibit 4 **HB 1346 Fiscal Impact** **(\$ in Millions)**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
State Revenues	\$848.9	\$644.6	\$730.1	\$823.8	\$911.7
Local Revenues	(\$36.4)	(\$24.3)	(\$24.8)	(\$25.3)	(\$25.8)

Local Fiscal Effect: Local income tax revenues decrease by about 3% of the additional amount of the net standard deductions claimed. Accordingly, local income tax revenues decrease by \$36.4 million in fiscal 2013 and by \$25.8 million in fiscal 2017, as shown in Exhibit 4.

Increasing the maximum value of the standard deduction may increase the amount of the refund received by an individual claiming the State refundable earned income credit. Montgomery County has a local EIC grant program based on the State's refundable earned income credit. Payments for this county EIC grant are made in the fiscal year following the fiscal year in which the returns are filed. Accordingly, Montgomery County expenditures could increase in fiscal 2014 and beyond.

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships would be meaningfully impacted by the bill. Any of these small businesses with higher amounts of taxable income would be negatively impacted through increased income tax liabilities. An unknown number of impacted businesses would be small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mc/jrb

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