

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 249 (Senators Jones-Rodwell and Pinsky)
Budget and Taxation

State Individual Income Tax - Millionaires' Tax

This bill permanently reinstates the 6.25% individual income tax rate that was previously imposed on taxpayers with net taxable income in excess of \$1 million in tax years 2008 through 2010.

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

Fiscal Summary

State Effect: General fund revenues increase by \$146.4 million in FY 2013 due to the imposition of the 6.25% tax rate. Future year 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	\$146.4	\$110.7	\$128.4	\$148.1	\$166.6
Expenditure	0	0	0	0	0
Net Effect	\$146.4	\$110.7	\$128.4	\$148.1	\$166.6

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 and Exhibit 2 show the State income tax rates for tax years 2008 through 2010 and beginning in tax year 2011, when the 6.25% income tax rate was no longer in effect.

Exhibit 1
Maryland State Income Tax Rates
Tax Years 2008-2010

Single, Dependent Filer, Married		Joint, Head of Household, Widower	
Filing Separate			
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
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%	\$500,001-\$1,000,000	5.50%	\$500,001-\$1,000,000
6.25%	Excess of \$1 Million	6.25%	Excess of \$1 Million

Exhibit 2
Maryland State Income Tax Rates
Beginning Tax Year 2011

Single, Dependent Filer, Married		Joint, Head of Household, Widower	
Filing Separate			
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
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

Background: Due to the State's fiscal crisis in the early 1990s, the General Assembly approved a temporary 6% income tax rate on taxable income over \$100,000 for single

taxpayers and \$150,000 for joint returns. The 6% rate applied for tax years 1992 through 1994 only. Chapter 4 of 1997 reduced the top marginal rate from 5% to 4.75%.

Chapter 3 of the 2007 special session enacted several changes to the personal income tax, including an increase in the top marginal income tax rate from 4.75% to 5.5%. Chapter 10 of 2008 established an income tax rate of 6.25% on net taxable income in excess of \$1 million for tax years 2008 through 2010. The Comptroller's Office advises that the revenue increase from the 6.25% rate totaled \$78.2 million in tax year 2008, \$60.8 million in tax year 2009, and \$75.0 million in tax year 2010.

State Revenues: The bill permanently reinstates the personal income tax rate of 6.25% on net taxable income in excess of \$1 million beginning in tax year 2012, with general fund revenues increasing by \$96.7 million in tax year 2012 and by \$103.5 million in tax year 2013. As a result, fiscal 2013 revenues increase by \$146.4 million, reflecting the change in tax year 2012 and a little less than one-half of the change in tax year 2013. **Exhibit 3** shows the fiscal impact of the 6.25% rate in fiscal 2013 through 2017.

Exhibit 3
Fiscal Impact of 6.25% Income Tax Rate
(\$ in Millions)

<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
\$146.4	\$110.7	\$128.4	\$148.1	\$166.6

It is estimated that a little less than one-fifth of the total revenue generated from the proposal is paid by nonresident returns. About 85% of the resident tax increase is generated from four counties – Montgomery County (47%), Baltimore County (21%), Anne Arundel County (9%), and Howard County (7%).

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. For a small business having multiple owners or partners, the business would not be impacted unless the business had net profits high enough to distribute in excess of \$1 million to any individual or partner.

Additional Information

Prior Introductions: HB 1070 of 2011 and HB 1177 of 2010 received a hearing in the House Ways and Means Committee, but no further action was taken. Senate Bill 30 of the 2011 special session was referred to the Senate Rules Committee, but no further action was taken. SB 798 of 2011 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 913 of 2010 proposed to extend the 6.25% income tax rate through tax year 2014. SB 913 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: HB 784 (Delegate Ivey, *et al.*) – Ways and Means.

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

Fiscal Note History: First Reader - February 27, 2012
ncs/jrb

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