

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 691 (Delegates Serafini and F. Turner)
 Ways and Means

Income Tax - Flat Tax

This bill repeals the existing State individual income tax rates and brackets and imposes a flat State income tax rate of 4.75% on all Maryland taxable income.

The bill takes effect July 1, 2013, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$115.1 million in FY 2014 due to imposition of a flat income tax rate. Future year revenue estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2014 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$115.1)	(\$260.7)	(\$300.0)	(\$335.1)	(\$372.0)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$115.1)	(\$260.7)	(\$300.0)	(\$335.1)	(\$372.0)

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

Local Effect: Local income tax revenues will not be impacted.

Small Business Effect: Meaningful. Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships will be meaningfully impacted by the bill. Any of these small businesses with higher amounts of taxable income will be positively impacted through decreased income tax liabilities.

Analysis

Current Law/Bill Summary: Chapter 2 of the 2012 first special session (SB 1302) contained numerous provisions that increased State and local tax revenues. About 90% of the estimated increase in fiscal 2014 revenues included in that legislation will be generated from the enactment of increased State income tax rates and a reduction of the personal exemption amounts for certain higher-income taxpayers. These changes are effective beginning in tax year 2012. The bill proposes to impose a flat income tax rate of 4.75% on the Maryland taxable income of all taxpayers.

Exhibit 1 shows the State income tax rates under current law.

Exhibit 1 Maryland State Income Tax Rates Current Law

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
Rate	<u>Maryland Taxable Income</u>	Rate	<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-\$100,000	4.75%	\$3,001-\$150,000
5.00%	\$100,001-\$125,000	5.00%	\$150,001-\$175,000
5.25%	\$125,001-\$150,000	5.25%	\$175,001-\$225,000
5.50%	\$150,001-\$250,000	5.50%	\$225,001-\$300,000
5.75%	Excess of \$250,000	5.75%	Excess of \$300,000

State Revenues: The State income tax rate of 4.75%, proposed by the bill, takes effect beginning in tax year 2014. As a result, general fund revenues will decrease by \$115.1 million in fiscal 2014, reflecting the impact of about one-half of a tax year. Future year revenue losses reflect annualization and the current economic forecast.

State Expenditures: General fund expenditures at the Comptroller's Office may increase minimally in fiscal 2014 as a result of issuing new employer withholding tables.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 11, 2013
ncs/jrb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510