

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE

House Bill 328 (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 3.5% on individuals with Maryland taxable income in excess of \$30,000. The bill also alters all county income tax rates to equal 2.3%.

The bill takes effect July 1, 2014, and applies to tax year 2015 and beyond.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$2.3 billion in FY 2015 due to imposition of the specified income tax rate. Future year revenue estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase in FY 2015 due to one-time implementation costs at the Comptroller’s Office.

(\$ in billions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$2.3)	(\$4.7)	(\$5.0)	(\$5.2)	(\$5.4)
Expenditure	-	0	0	0	0
Net Effect	(\$2.3)	(\$4.7)	(\$5.0)	(\$5.2)	(\$5.4)

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

**Local Effect:** Local revenues will decrease by \$500 million in FY 2015 and by \$1.0 billion in FY 2019 due to the county income tax rate required by the bill. Expenditures are not affected.

**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 will be positively impacted through decreased income tax liabilities.

## Analysis

**Current Law:** Chapter 2 of the 2012 first special session contained numerous provisions that increased State and local tax revenues, including increased State income tax rates and a reduction of the personal exemption amounts for certain higher-income taxpayers effective beginning in tax year 2012. **Exhibit 1** shows the State income tax rates under current law.

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

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

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The counties and Baltimore City are required to levy a local income tax on their residents. The tax is assessed as a percentage of the taxpayer's Maryland taxable income. Counties are authorized to set a local income tax rate of at least 1% but not more than 3.2%. The tax rate is a flat rate, as counties are not authorized to impose the tax at different tax rates. Generally, each incorporated municipality shares in its county's income taxes by receiving a portion of the county income taxes paid by the municipality's residents.

The Comptroller's expenses that are necessary to administer the income tax are paid by distributions from State and local income tax revenues. These costs include the amount necessary to administer the local income tax.

**State Revenues:** The State income tax rate of 3.5% proposed by the bill takes effect beginning in tax year 2015. As a result, general fund revenues will decrease by

\$2.3 billion in fiscal 2015, reflecting the impact of about one-half of a tax year. Future year revenue losses reflect annualization and the current economic forecast. **Exhibit 2** shows the estimated impact of the bill on State and local revenues.

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**Exhibit 2**  
**State and Local Revenue Impacts**  
**Fiscal 2015-2019**  
**(\$ in Billions)**

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State	(\$2.3)	(\$4.7)	(\$5.0)	(\$5.2)	(\$5.4)
Local	(0.5)	(1.0)	(1.0)	(1.0)	(1.0)
<b>Total Revenues</b>	<b>(\$2.8)</b>	<b>(\$5.7)</b>	<b>(\$6.0)</b>	<b>(\$6.2)</b>	<b>(\$6.4)</b>

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**State Expenditures:** General fund expenditures for the Comptroller's Office may increase in fiscal 2015 as a result of issuing new employer withholding tables and altering the personal income tax forms.

**Local Revenues:** Net local income tax revenues will decrease as a result of the county income tax rate required by the bill. In tax year 2014, every county and Baltimore City is imposing a rate of greater than 2.3% except for Worcester County. Local revenues will decrease by \$500 million in fiscal 2015 and by \$1.0 billion in fiscal 2019, as shown in Exhibit 2.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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