

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE

Senate Bill 769 (Senator Getty, *et al.*)  
 Budget and Taxation

Income Tax - Elimination of the Marriage Penalty

This bill decreases income taxes for certain higher-income taxpayers who file returns jointly, as a head of household, or as a widower by establishing new individual income tax rate brackets and increasing the personal exemption amount.

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

Fiscal Summary

**State Effect:** General fund revenues decrease by \$168.4 million in FY 2015 due to the income tax rates and personal exemption amounts specified by the bill, reflecting revenues from one and one-half tax years. Future year revenue estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2015 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$168.4)	(\$117.0)	(\$121.2)	(\$125.2)	(\$129.1)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$168.4)	(\$117.0)	(\$121.2)	(\$125.2)	(\$129.1)

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

**Local Effect:** Local income tax revenues decrease by \$47.7 million in FY 2015 and by \$33.4 million in FY 2019 due to the increase in personal exemption amounts specified by the bill. No effect on expenditures.

**Small Business Effect:** 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.

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## Analysis

**Current Law/Bill Summary:** Chapter 2 of the first special session of 2012 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. **Exhibit 2** shows the State income tax rates proposed by the bill beginning in tax year 2014.

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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><u>Rate</u></b>	<b><u>Maryland Taxable Income</u></b>	<b><u>Rate</u></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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**Exhibit 2**  
**Maryland State Income Tax Rates**  
**Proposed**

<b>Single, Dependent Filer, Married Filing Separate</b>		<b>Joint, Head of Household, Widower</b>	
<b><u>Rate</u></b>	<b><u>Maryland Taxable Income</u></b>	<b><u>Rate</u></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-\$200,000
5.00%	\$100,001-\$125,000	5.00%	\$200,001-\$250,000
5.25%	\$125,001-\$150,000	5.25%	\$250,001-\$300,000
5.50%	\$150,001-\$250,000	5.50%	\$300,001-\$500,000
5.75%	Excess of \$250,000	5.75%	Excess of \$500,000

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An individual for State income tax purposes is entitled to claim the same number of personal exemptions that the individual claimed on the federal income tax return. Nonresidents and part-time residents are required to prorate exemptions based on the percentage of income subject to Maryland tax. **Exhibit 3** shows the current value of the personal exemption by federal adjusted gross income (FAGI) and filing class and the proposed values under the bill.

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**Exhibit 3**  
**Personal Exemption Values by FAGI and Filing Class**

	<u>Current Brackets</u>	<u>Proposed</u>	<u>Exemption Value</u>
<b>Single Taxpayers*</b>			
	\$100,000 or less		\$3,200
	\$100,001-\$125,000		1,600
	\$125,001-\$150,000		800
	Over \$150,000		0
<b>Joint Taxpayers</b>			
	\$150,000 or less	\$200,000 or less	\$3,200
	\$150,001-\$175,000	\$200,001-\$250,000	1,600
	\$175,001-\$200,000	\$250,001-\$300,000	800
	Over \$200,000	Over \$300,000	0

\*The bill does not alter the exemption amounts for single taxpayers.

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**State Revenues:** The new State income tax rates and personal exemption amounts under the bill take effect beginning in tax year 2014. As a result, general fund revenues will decrease by \$168.4 million in fiscal 2015, which reflects the impact of all of tax year 2014 and one-half of tax year 2015. **Exhibit 4** shows the estimated impact of the bill on State and local revenues.

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**Exhibit 4**  
**State and Local Revenue Impacts**  
**Fiscal 2015-2019**  
**(\$ in Millions)**

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Rates	(\$94.6)	(\$67.1)	(\$70.7)	(\$74.1)	(\$77.4)
Personal Exemptions	(73.8)	(49.9)	(50.5)	(51.1)	(51.7)
<b>Total State Revenues</b>	<b>(\$168.4)</b>	<b>(\$117.0)</b>	<b>(\$121.2)</b>	<b>(\$125.2)</b>	<b>(\$129.1)</b>
<b>Local Revenues</b>	<b>(\$47.7)</b>	<b>(\$32.2)</b>	<b>(\$32.6)</b>	<b>(\$33.0)</b>	<b>(\$33.4)</b>
<b>Total Revenues</b>	<b>(\$216.0)</b>	<b>(\$149.2)</b>	<b>(\$153.8)</b>	<b>(\$158.2)</b>	<b>(\$162.4)</b>

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

**Local Revenues:** Local income tax revenues will decrease as a result of the increase in personal exemption amounts specified by the bill. Local revenues will decrease by \$47.7 million in fiscal 2015 and by \$33.4 million in fiscal 2019, as shown in Exhibit 4.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 448 (Delegate Parrott, *et al.*) - Ways and Means.

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

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ncs/jrb

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