

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

Senate Bill 884 (Senator Serafini)
 Budget and Taxation

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 3.8% on individuals (3.9% for joint filers) with federal adjusted gross income in excess of \$30,000.

The bill takes effect July 1, 2015, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund revenues increase by \$86.7 million in FY 2016 due to imposition of the specified income tax rates. Future year revenue estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase in FY 2016 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$86.7	\$176.0	\$180.7	\$184.8	\$188.7
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	\$86.7	\$176.0	\$180.7	\$184.8	\$188.7

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

Local Effect: None.

Small Business Effect: Meaningful. Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships will be meaningfully impacted by the bill.

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.

Exhibit 1 Maryland State Income Tax Rates Current Law

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
<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-\$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 rates of 3.8% and 3.9% proposed by the bill take effect beginning in tax year 2016. It is assumed that the bill exempts from the State income tax all taxpayers with federal adjusted gross income of \$30,000 or below, and applies the rates proposed by the bill to the federal adjusted gross income of all other taxpayers. As a result, general fund revenues will increase by \$86.7 million in fiscal 2016, which reflects the impact of one-half of tax year 2016. Future year revenue estimates reflect annualization and the current income tax revenue forecast. **Exhibit 2** shows the estimated impact of the bill on State revenues.

Exhibit 2
State Revenue Impacts
Fiscal 2016-2020
(\$ in Millions)

<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
\$86.7	\$176.0	\$180.7	\$184.8	\$188.7

The bill will decrease State taxes for all taxpayers with a federal adjusted gross income of less than \$30,000, will increase State taxes for taxpayers with net taxable incomes above this amount but below about \$150,000 (\$200,000 for joint filers), and will decrease State taxes for taxpayers with incomes above these thresholds. In tax year 2013, about 56% of all resident taxpayers would have had a tax increase under the bill and the remaining 44% of taxpayers would have paid less in State income taxes.

State Expenditures: The bill establishes new income tax rates beginning in tax year 2016. As a result, general fund expenditures for the Comptroller's Office may increase in fiscal 2016 due to issuing new employer withholding tables, altering the personal income tax forms, and additional processing of income tax returns.

Small Business Impact: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships will be meaningfully impacted by the bill. Small businesses with low and high incomes will generally be positively impacted due to a decrease in State tax liabilities, with other small businesses negatively impacted due to an increase in income tax liabilities.

Additional Information

Prior Introductions: HB 328 of 2014, a similar bill, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: Although designated as a cross file, HB 1123 (Delegate Afzali - Rules and Executive Nominations) is not identical.

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

Fiscal Note History: First Reader - March 20, 2015
md/jrb

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