

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 735

(Senator Serafini, *et al.*)

Budget and Taxation

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Income Tax - Flat Tax

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This bill repeals the existing State individual income tax rates and brackets and imposes a flat State income tax rate of 3.9% on taxpayers with federal adjusted gross income in excess of \$30,000.

The bill takes effect July 1, 2016, and applies to tax year 2017 and beyond.

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Fiscal Summary

**State Effect:** The overall net impact of the proposed rate on personal income tax revenues is expected to be revenue neutral. General fund expenditures may increase in FY 2017 due to one-time implementation costs at the Comptroller's Office.

**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.

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## Analysis

**Current Law:** 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><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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**State Revenues:** The State income tax rate of 3.9% proposed by the bill takes effect beginning in tax year 2017. 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 rate proposed by the bill to the federal adjusted gross income of all other taxpayers. Based on these assumptions, the Comptroller's Office estimates that the proposed change will be roughly revenue neutral.

**State Expenditures:** As a result of the new flat State income tax rate, general fund expenditures for the Comptroller's Office may increase in fiscal 2017 due to issuing new employer withholding tables and altering the personal income tax forms.

**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.

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### **Additional Information**

**Prior Introductions:** Similar legislation was introduced in the 2014 and 2015 sessions. SB 884 of 2015 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 328 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 14, 2016  
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