

**Department of Legislative Services**  
Maryland General Assembly  
2016 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 127

(Senator Serafini)

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 surviving spouse by establishing new tax rate brackets and increasing the value of the personal exemption.

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

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$184.3 million in FY 2017 due to the income tax rates and personal exemption amounts specified by the bill, reflecting the impact of one and one-half tax years. Future year estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2017 due to one-time implementation costs at the Comptroller's Office.

| (\$ in millions) | FY 2017   | FY 2018   | FY 2019   | FY 2020   | FY 2021   |
|------------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenue       | (\$184.3) | (\$126.0) | (\$127.8) | (\$129.5) | (\$131.1) |
| GF Expenditure   | -         | \$0       | \$0       | \$0       | \$0       |
| Net Effect       | (\$184.3) | (\$126.0) | (\$127.8) | (\$129.5) | (\$131.1) |

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

**Local Effect:** Local income tax revenues decrease by \$51.0 million in FY 2017 and by \$35.6 million in FY 2021 due to the increase in personal exemption amounts specified by the bill. Local expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law/Bill Summary:** 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 2016.

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

| <b>Single, Dependent Filer,<br/>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,<br/>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                      |
| <br><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 2016. As a result, general fund revenues will decrease by \$184.3 million in fiscal 2017, which reflects the impact of all of tax year 2016 and about one-half of tax year 2017. **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 2017-2021**  
**(\$ in Millions)**

|                             | <u>FY 2017</u>   | <u>FY 2018</u>   | <u>FY 2019</u>   | <u>FY 2020</u>   | <u>FY 2021</u>   |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Rates                       | (\$103.5)        | (\$71.5)         | (\$72.7)         | (\$73.7)         | (\$74.7)         |
| Personal Exemptions         | (80.8)           | (54.5)           | (55.1)           | (55.7)           | (56.4)           |
| <b>Total State Revenues</b> | <b>(\$184.3)</b> | <b>(\$126.0)</b> | <b>(\$127.8)</b> | <b>(\$129.5)</b> | <b>(\$131.1)</b> |
| <b>Local Revenues</b>       | <b>(\$51.0)</b>  | <b>(\$34.4)</b>  | <b>(\$34.8)</b>  | <b>(\$35.2)</b>  | <b>(\$35.6)</b>  |
| <b>Total Revenues</b>       | <b>(\$235.4)</b> | <b>(\$160.4)</b> | <b>(\$162.6)</b> | <b>(\$164.7)</b> | <b>(\$166.7)</b> |

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**State Expenditures:** General fund expenditures for the Comptroller's Office may increase minimally in fiscal 2017 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 \$51.0 million in fiscal 2017 and by \$35.6 million in fiscal 2021, as shown in Exhibit 4.

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**Additional Information**

**Prior Introductions:** SB 769 of 2014 was withdrawn. Its cross file, HB 448, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** HB 315 (Delegates Szeliga and Kelly) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 1, 2016  
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