

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 133

(Senator Serafini, *et al.*)

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 3.9% on taxpayers with federal adjusted gross income in excess of \$30,000.

The bill takes effect July 1, 2017, and applies to tax year 2018 and beyond.

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 2018 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.

Analysis

Current Law: 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 rate of 3.9% proposed by the bill takes effect beginning in tax year 2018. 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 2018 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.

Additional Information

Prior Introductions: SB 735 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Similar legislation was also 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; its cross file, HB 1123, was assigned to the House Rules and Executive Nominations 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

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fn/jrb

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