

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 934 (Delegate Szeliga, *et al.*)
 Ways and Means

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, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$193.6 million in FY 2018 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 2018 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$193.6)	(\$133.7)	(\$135.2)	(\$136.5)	(\$138.1)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$193.6)	(\$133.7)	(\$135.2)	(\$136.5)	(\$138.1)

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

Local Effect: Local income tax revenues decrease by \$51.0 million in FY 2018 and by \$35.6 million in FY 2022 due to the increase in personal exemption amounts specified by the bill. Local expenditures are not affected.

Small Business Effect: Potential meaningful. Small businesses such as partnerships, S corporations, limited liability companies, and sole proprietorships that are impacted by the bill will realize decreased income tax liabilities.

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 2017.

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

Exhibit 2 Maryland State Income Tax Rates Proposed

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-\$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

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 and filing class and the proposed values under the bill.

Exhibit 3
Personal Exemption Values by FAGI and Filing Class

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

FAGI: federal adjusted gross income

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

State Revenues: The new State income tax rates and personal exemption amounts under the bill take effect beginning in tax year 2017. As a result, general fund revenues will decrease by \$193.6 million in fiscal 2018, which reflects the impact of all of tax year 2017 and about one-half of tax year 2018. **Exhibit 4** shows the estimated impact of the bill on State and local revenues.

Exhibit 4
State and Local Revenue Impacts
Fiscal 2018-2022
(\$ in Millions)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Rates	(\$112.8)	(\$79.2)	(\$80.1)	(\$80.8)	(\$81.7)
Personal Exemptions	(80.8)	(54.5)	(55.1)	(55.7)	(56.4)
Total State Revenues	(\$193.6)	(\$133.7)	(\$135.2)	(\$136.5)	(\$138.1)
Local Revenues	(\$51.0)	(\$34.4)	(\$34.8)	(\$35.2)	(\$35.6)
Total Revenues	(\$244.6)	(\$168.1)	(\$170.0)	(\$171.7)	(\$173.7)

State Expenditures: General fund expenditures for the Comptroller's Office may increase minimally in fiscal 2018 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 2018 and by \$35.6 million in fiscal 2022, as shown in Exhibit 4.

Additional Information

Prior Introductions: HB 315 of 2016 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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md/jrb

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