

**Department of Legislative Services**  
Maryland General Assembly  
2020 Session

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

House Bill 1190  
(Delegate Smith)  
Ways and Means

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**Individual Income Tax - Rates and Rate Brackets - Alterations**

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This bill alters the personal income tax by establishing new tax brackets and increases tax rates imposed including an increase in the top marginal tax rate from 5.75% to 7.00%.

**The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

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**Fiscal Summary**

**State Effect:** General fund revenues increase by \$284.2 million in FY 2021 due to the income tax rates and brackets specified by the bill, reflecting the impact of about one-half of a tax year. Future year estimates reflect annualization and the current income tax revenue forecast. General fund expenditures may increase minimally in FY 2021 due to one-time implementation costs at the Comptroller's Office.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	\$284.2	\$585.5	\$614.0	\$641.1	\$668.4
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	\$284.2	\$585.5	\$614.0	\$641.1	\$668.4

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

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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**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 2021.

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

**Single, Dependent Filer,  
 Married Filing Separate**

**Joint, Head of Household, Widower**

<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**

**Single, Dependent Filer,  
 Married Filing Separate**

**Joint, Head of Household, Widower**

<b><u>Rate</u></b>	<b><u>Maryland Taxable Income</u></b>	<b><u>Rate</u></b>	<b><u>Maryland Taxable Income</u></b>
3.00%	\$1-\$3,000	3.00%	\$1-\$4,500
3.50%	\$3,001-\$6,000	3.50%	\$4,501-\$9,000
4.00%	\$6,001-\$12,000	4.00%	\$9,001-\$18,000
4.50%	\$12,001-\$24,000	4.50%	\$18,001-\$36,000
5.00%	\$24,001-\$48,000	5.00%	\$36,001-\$72,000
5.50%	\$48,001-\$96,000	5.50%	\$72,001-\$144,000
5.75%	\$96,001-\$192,000	6.00%	\$144,001-\$288,000
6.50%	\$192,001-\$1,000,000	6.50%	\$288,001-\$1,000,000
7.00%	Excess of \$1,000,000	7.00%	Excess of \$1,000,000

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**State Revenues:** The new State income tax rates and brackets under the bill take effect beginning in tax year 2021. The bill will generally lower tax liabilities for lower-income taxpayers and increase tax liabilities for higher-income taxpayers. As a result, general fund

revenues will increase by a net of \$284.2 million in fiscal 2021, which reflects the impact of about one-half of tax year 2021. **Exhibit 3** shows the estimated impact of the bill on State revenues.

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**Exhibit 3**  
**State Revenue Impacts**  
**Fiscal 2021-2025**  
**(*\$* in Millions)**

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	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>
State Revenues	\$284.2	\$585.5	\$614.0	\$641.1	\$668.4

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**State Expenditures:** General fund expenditures for the Comptroller's Office may increase minimally in fiscal 2021 as a result of issuing new employer withholding tables and altering the personal income tax forms.

**Small Business Impact:** Small businesses such as partnerships, S corporations, limited liability companies, and sole proprietorships will be impacted by the proposed bracket and rate changes. Most returns that have a net taxable income at or below the 5% brackets specified by the bill (up to \$48,000 single and \$72,000 joint) will have a decrease in tax liabilities while returns reporting incomes above these thresholds will typically have increased tax liabilities.

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**Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

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

**Fiscal Note History:** First Reader - March 2, 2020  
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