

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 839

(Delegate Buckel, *et al.*)

Ways and Means

Income Tax – Rates and Itemized Deductions

This bill (1) reduces specified State income tax rates and (2) allows an individual to itemize deductions for State income tax purposes without regard to whether or not the individual itemizes for federal income tax purposes. For an individual who itemizes on their State but not federal income tax return, the value of the itemized deductions is calculated as if the individual itemized on their federal income tax return. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$755.8 million in FY 2023 due to the income tax rates specified by the bill and additional deductions claimed, reflecting the impact of about one and one-half tax years. Future year estimates reflect annualization, the current income tax revenue forecast, and the termination of federal tax provisions. General fund expenditures increase by \$233,800 in FY 2023 due to implementation costs at the Comptroller's Office. Future years reflect ongoing expenditures.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$755.8)	(\$577.8)	(\$603.5)	(\$630.2)	(\$492.4)
GF Expenditure	\$0.2	\$0.4	\$0.4	\$0.4	\$0.4
Net Effect	(\$756.0)	(\$578.2)	(\$603.9)	(\$630.6)	(\$492.8)

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

Local Effect: Local income tax revenues decrease by \$81.9 million in FY 2023 and \$93.4 million in FY 2026. 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:

State Income Tax Rates

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 2022.

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

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
Rate	<u>Maryland Taxable Income</u>	Rate	<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
4.50%	\$3,001-\$100,000	4.50%	\$3,001-\$150,000
4.75%	\$100,001-\$125,000	4.75%	\$150,001-\$175,000
5.15%	\$125,001-\$150,000	5.00%	\$175,001-\$225,000
5.35%	\$150,001-\$250,000	5.35%	\$225,001-\$300,000
5.75%	Excess of \$250,000	5.75%	Excess of \$300,000

Federal Law

To determine federal taxable income, a taxpayer may generally reduce their federal adjusted gross income by either claiming the standard deduction or itemizing allowable deductions.

The federal standard deduction in tax year 2022 is equal to \$12,950 for an individual taxpayer (\$25,900 if married filing jointly, and \$19,400 for a head of household). These values are indexed in future years for inflation.

The expenses that may be itemized include certain home mortgage interest, charitable contributions, medical expenses, disaster losses, and certain State and local taxes.

State Income Tax

An individual is allowed to itemize deductions for State income tax purposes only if the individual itemizes for federal income tax purposes. Taxpayers generally may only deduct expenses that qualify for the federal itemized deduction. An individual who itemizes for State income tax purposes is required to reduce the sum of the individual's federal itemized deductions by any amount:

- required by Internal Revenue Code (IRC);
- deducted under Section 170 of IRC for contributions of a preservation or conservation easement for which a State credit is claimed; and
- claimed as taxes on income paid to a state or political subdivision of a state, after subtracting a *pro rata* portion of the reduction to itemized deductions required under Section 68 of IRC.

The value of the standard deduction is equal to 15% of Maryland adjusted gross income, subject to minimum and maximum values depending on filing status as shown in **Exhibit 3**.

Exhibit 3
State Standard Deduction

Single, Dependent Filer, Married Filing Separately		Joint, Head of Household, Widower	
<u>MAGI</u>	<u>Deduction</u>	<u>MAGI</u>	<u>Deduction</u>
Under \$10,000	\$1,500	Under \$20,000	\$3,000
\$10,000-\$13,333	15%	\$20,000-\$26,667	15%
Over \$13,333	\$2,000	Over \$26,667	\$4,000

MAGI: Maryland adjusted gross income

State Revenues: The bill (1) reduces specified State income tax rates and (2) allows individuals to itemize deductions for State income tax purposes without regard to whether or not the individual itemizes for federal income tax purposes, beginning with tax year 2022. As a result, general fund revenues will decrease by \$755.8 million in fiscal 2023, which reflects the impact of about one and one-half tax years. **Exhibit 4** shows the projected State and local revenue loss resulting from the bill.

Exhibit 4
Projected State and Local Revenue Impact
(\$ in Millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State	(\$755.8)	(\$577.8)	(\$603.5)	(\$630.2)	(\$492.4)
Local	(81.9)	(85.6)	(89.4)	(93.4)	0.0
Total Revenues	(\$837.7)	(\$663.4)	(\$692.9)	(\$723.6)	(\$492.4)

State Expenditures: The Comptroller's Office advises that it will incur additional costs beginning in fiscal 2023 as a result of hiring additional revenue examiners to verify itemized deduction claims. General fund expenditures increase by \$233,800 in fiscal 2023, which reflects a January 1, 2023 hiring date. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	5
Salaries and Fringe Benefits	\$191,291
Operating Expenses	42,468
Total FY 2023 Expenditures	\$233,759

Future year expenditures reflect full salaries with annual increases and employee turnover as well as ongoing operating expenses.

Local Revenues: Local income tax revenues decrease by about 3% of the net increase in deductions claimed. Local revenues decrease by \$81.9 million in fiscal 2023 and \$93.4 million in fiscal 2026, as shown in Exhibit 4.

Additional Information

Prior Introductions: HB1146 of 2018 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 - February 22, 2022
fnu2/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510