

Department of Legislative Services  
 Maryland General Assembly  
 2021 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 275 (Delegate Smith)  
 Ways and Means

Individual Income Tax - Brackets and Rates - Alteration

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, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

**State Effect:** General fund revenues increase by \$297.3 million in FY 2022 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 projected income tax revenue growth. General fund expenditures may increase minimally in FY 2022 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	\$297.3	\$612.5	\$642.2	\$670.6	\$699.1
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	\$297.3	\$612.5	\$642.2	\$670.6	\$699.1

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

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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 2022.

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

<b>Single, Dependent Filer, 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, 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>
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 2022. The bill will generally lower tax liabilities for lower-income

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taxpayers and increase tax liabilities for higher-income taxpayers. As a result, general fund revenues will increase by a net of \$297.3 million in fiscal 2022, which reflects the impact of about one-half of tax year 2022. **Exhibit 3** shows the estimated impact of the bill on State revenues.

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**Exhibit 3**  
**State Revenue Impacts**  
**(\$ in Millions)**

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State Revenues	\$297.3	\$612.5	\$642.2	\$670.6	\$699.1

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**State Expenditures:** General fund expenditures for the Comptroller’s Office may increase minimally in fiscal 2022 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:** HB 1190 of 2020 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Designated Cross File:** None.

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

**Fiscal Note History:** First Reader - January 27, 2021  
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