

**Department of Legislative Services**  
Maryland General Assembly  
2018 Session

**FISCAL AND POLICY NOTE**  
**Third Reader**

Senate Bill 184

(Senator Kasemeyer, *et al.*)

Budget and Taxation

Ways and Means

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**Income Tax - Personal Exemptions - Alteration**

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This bill clarifies that for State income tax purposes a taxpayer can deduct a personal exemption for the taxpayer, the taxpayer's spouse, and eligible dependents under Section 152 of the Internal Revenue Code (IRC). **The bill takes effect July 1, 2018 and applies to tax years 2018 and beyond.**

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**Fiscal Summary**

**State Effect:** None. The bill is clarifying in nature and reflects current practice.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law/Background:**

*Federal Law*

An individual can deduct a personal exemption for federal income tax purposes as provided under Section 151 of the IRC. A taxpayer can deduct an exemption for (1) the individual; (2) the taxpayer's spouse; and (3) each individual who is a dependent of the taxpayer, as defined in Section 152 of the IRC.

For tax years prior to 2018, the value of the exemption was indexed for inflation and was reduced or eliminated if the taxpayer's federal adjusted gross income (FAGI) exceeded certain thresholds. In tax year 2017, the personal exemption equaled \$4,050. The

exemption began to phase-out for taxpayers with FAGI of \$261,500 (\$313,800 for married couples filing jointly) and completely phased out at \$384,000 (\$436,300 for married couples filing jointly).

Among other changes, federal Public Law 115-97, the Tax Cuts and Jobs Act of 2017, eliminates the benefit of the federal personal exemption in tax years 2018 through 2025 by reducing to zero the amount of the exemption that can be deducted. Beginning with tax year 2026, this provision is repealed and the provisions that were in effect prior to tax year 2018 will apply.

*State Law*

Whether or not a federal income tax return is filed, for State income tax purposes an individual other than a fiduciary is entitled to claim the same number of personal exemptions that can be claimed for federal income tax purposes as determined under Section 151 of the IRC. Nonresidents and part-time residents are required to prorate exemptions based on the percentage of income subject to Maryland tax.

**Exhibit 1** shows the current value of the personal exemption by FAGI.

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	<b><u>FAGI</u></b>	<b><u>Exemption Value</u></b>
<b>Single Taxpayers</b>	\$100,000 or less	\$3,200
	\$100,001-\$125,000	1,600
	\$125,001-\$150,000	800
	Over \$150,000	0
<b>Joint Taxpayers</b>	\$150,000 or less	\$3,200
	\$150,001-\$175,000	1,600
	\$175,001-\$200,000	800
	Over \$200,000	0

FAGI: federal adjusted gross income

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Individuals who are age 65 or older and blind individuals may claim an additional personal exemption of \$1,000.

**State/Local Effect:** The bill clarifies that for State income tax purposes a taxpayer can deduct a personal exemption for the taxpayer, the taxpayer's spouse, and eligible

dependents. Although the 2017 federal legislation reduces to zero the federal exemption amount in tax years 2018 through 2025, the Act does not repeal the personal exemption.

If the federal Act is construed to repeal the State personal exemption, however, general fund revenues will increase significantly beginning in fiscal 2019 due to the elimination of personal exemption deductions. State general fund revenues would increase by \$730 million in fiscal 2019 and by approximately \$500 million annually thereafter. Local income tax revenues would increase by \$490 million in fiscal 2019 and by approximately \$330 million annually thereafter.

If the State personal exemption was repealed, about 92% of all taxable returns (2.3 million) would have an increase in their gross tax liability. **Exhibit 2** shows the average State and local tax increase that repealing the personal exemption would have per tax return based on the taxpayer's filing status.

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**Exhibit 2**  
**Average Increase in State and Local Taxes per Return**  
**Tax Year 2018**

<u>Filing Status</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
Single	\$131	\$81	\$212
Joint	342	212	554
<b>All</b>	<b>\$236</b>	<b>\$146</b>	<b>\$382</b>

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 365 (Delegate Walker, *et al.*) - Ways and Means.

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

**Fiscal Note History:** First Reader - January 29, 2018  
md/hlb Third Reader - March 15, 2018

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Analysis by: Robert J. Rehrmann

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