

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1277
 Ways and Means

(Delegate Szeliga, *et al.*)

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, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$202.8 million in FY 2019 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 2019 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$202.8)	(\$140.1)	(\$141.6)	(\$142.9)	(\$144.6)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$202.8)	(\$140.1)	(\$141.6)	(\$142.9)	(\$144.6)

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

Local Effect: Local income tax revenues decrease by \$53.0 million in FY 2019 and by \$37.0 million in FY 2023 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 2018.

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

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 2018. As a result, general fund revenues will decrease by \$202.8 million in fiscal 2019, which reflects the impact of all of tax year 2018 and about one-half of tax year 2019. **Exhibit 4** shows the estimated impact of the bill on State and local revenues.

Exhibit 4
State and Local Revenue Impacts
Fiscal 2019-2023
(\$ in Millions)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Rates	(\$120.8)	(\$83.4)	(\$84.3)	(\$85.0)	(\$86.0)
Personal Exemptions	(82.0)	(56.7)	(57.3)	(57.9)	(58.7)
Total State Revenues	(\$202.8)	(\$140.1)	(\$141.6)	(\$142.9)	(\$144.6)
Local Revenues	(\$53.0)	(\$35.8)	(\$36.2)	(\$36.6)	(\$37.0)
Total Revenues	(\$255.9)	(\$175.9)	(\$177.8)	(\$179.5)	(\$181.7)

State Expenditures: General fund expenditures for the Comptroller’s Office may increase minimally in fiscal 2019 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 \$53.0 million in fiscal 2019 and by \$37.0 million in fiscal 2023, as shown in Exhibit 4.

Additional Information

Prior Introductions: HB 934 of 2017 and HB 315 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 127 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

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

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Analysis by: Robert J. Rehrmann

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