

Tax Alert



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Changes in the Income Tax Law

In the 2007 Special Session, the Maryland General Assembly enacted the Tax Reform Act of 2007 which resulted in major changes in the income tax law that went into effect January 1, 2008. Below are these changes as amended by the 2008 legislative session. For more details on these changes, visit the Comptroller's Web site www.marylandtaxes.com

Change in Tax Rates and Rate Brackets: The General Assembly has amended Section 10-105(a) to alter the Maryland income tax rates and rate brackets for individuals for all tax years beginning after December 31, 2007. The new rates and rate brackets are indicated below:

| Taxpayers Filing Joint, Surviving Spouse or Head of Household Returns | | All Other Individual Taxpayers | |
|--|-----------------|-----------------------------------|-----------------|
| <u>Taxable Income</u> | <u>Tax Rate</u> | <u>Taxable Income</u> | <u>Tax Rate</u> |
| \$1 - \$1,000 | 2 percent | \$1 - \$1,000 | 2 percent |
| \$1,001 - \$2,000 | 3 percent | \$1,001 - \$2,000 | 3 percent |
| \$2,001 - \$3,000 | 4 percent | \$2,001 - \$3,000 | 4 percent |
| \$3,001 - \$200,000 | 4.75 percent | \$3,001 - \$150,000 | 4.75 percent |
| \$200,001 - \$350,000 | 5 percent | \$150,001 - \$300,000 | 5 percent |
| \$350,001 - \$500,000 | 5.25 percent | \$300,001 - \$500,000 | 5.25 percent |
| \$500,001 - \$1,000,000 | 5.5 percent | \$500,001 - \$1,000,000 | 5.5 percent |
| In excess of \$1,000,000 | 6.25 percent | In excess of \$1,000,000 | 6.25 percent |

Actual Calculation

Filing Jointly, Surviving Spouse or Head of Household

| <u>Taxable Net Income</u> | | <u>Pay</u> | <u>Plus Percent on Excess</u> | <u>Of the Amount Over</u> |
|---------------------------|---------------------|-------------|-------------------------------|---------------------------|
| <u>Over</u> | <u>But Not Over</u> | | | |
| \$0 | \$1,000 | \$0 | 2 percent | \$0 |
| \$1,000 | \$2,000 | \$20.00 | 3 percent | \$1,000 |
| \$2,000 | \$3,000 | \$50.00 | 4 percent | \$2,000 |
| \$3,000 | \$200,000 | \$90.00 | 4.75 percent | \$3,000 |
| \$200,000 | \$350,000 | \$9,447.50 | 5 percent | \$200,000 |
| \$350,000 | \$500,000 | \$16,947.50 | 5.25 percent | \$350,000 |
| \$500,000 | \$1,000,000 | \$24,822.50 | 5.5 percent | \$500,000 |
| \$1,000,000 | -- | \$52,322.50 | 6.25 percent | \$1,000,000 |

Filing as Single, Married Filing Separately, Dependent Taxpayers or Fiduciaries

| <u>Taxable Income</u> | | <u>Pay</u> | <u>Plus Percent on Excess</u> | <u>Of the Amount Over</u> |
|-----------------------|---------------------|-------------|-------------------------------|---------------------------|
| <u>Over</u> | <u>But Not Over</u> | | | |
| \$0 | \$1,000 | \$0 | 2 percent | \$0 |
| \$1,000 | \$2,000 | \$20.00 | 3 percent | \$1,000 |
| \$2,000 | \$3,000 | \$50.00 | 4 percent | \$2,000 |
| \$3,000 | \$150,000 | \$90.00 | 4.75 percent | \$3,000 |
| \$150,000 | \$300,000 | \$7,072.50 | 5 percent | \$150,000 |
| \$300,000 | \$500,000 | \$14,572.50 | 5.25 percent | \$300,000 |
| \$500,000 | \$1,000,000 | \$25,072.50 | 5.5 percent | \$500,000 |
| \$1,000,000 | -- | \$52,572.50 | 6.25 percent | \$1,000,000 |

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Change in Exemption Amounts: The statute was amended to change the personal exemption amount. For taxpayers with a federal adjusted gross income of up to \$100,000 (up to \$150,000 if filing jointly), the exemption amount has been increased from \$2,400 to \$3,200. An additional exemption of \$3,200 may be claimed for each dependent who is at least 65 years of age on the last day of the tax year.

For taxpayers with higher incomes, the exemption amount is limited as follows:

| Taxpayers Filing Joint, Surviving Spouse, Head of Household Returns | | All Others (Excluding Dependent Taxpayers) | |
|--|-----------------------------|---|-----------------------------|
| <u>Federal Adjusted Gross Income</u> | <u>Exemption Amount</u> | <u>Federal Adjusted Gross Income</u> | <u>Exemption Amount</u> |
| \$150,001 - \$175,000 | \$2,400 | \$100,001 - \$125,000 | \$2,400 |
| \$175,001 - \$200,000 | \$1,800 | \$125,001 - \$150,000 | \$1,800 |
| \$200,001 - \$250,000 | \$1,200 | \$150,001 - \$200,000 | \$1,200 |
| In excess of \$250,000 | \$600 | In excess of \$200,000 | \$600 |

The additional exemption for a taxpayer and spouse being at least 65 years of age or blind remains at \$1,000.

Change in Refundable Earned Income Credit Rate and Eligibility: The statute was amended to increase the percentage of the federal earned income credit used to determine the amount that individuals may claim as a refundable earned income credit on the Maryland return. An individual may claim a refund in the amount, if any, by which 25 percent of the federal earned income credit exceeds the state income tax for the tax year. Previously, the percentage rate was 20 percent. The eligibility for this refundable credit has been changed by removing the requirement that the taxpayer must have one or more dependent exemptions.

Gambling Winnings: Beginning January 1, 2008, when wagering is subject to withholding, a payor shall withhold tax at a rate of 9.25 percent on a resident's winnings derived from wagering. For a nonresident, the withholding rate is 7.5 percent.

Safe Harbor for Calculation of Underpayment of Estimated Taxes: The statute was amended to mandate that the estimated tax payments made by individuals for tax year 2008 must be at least 90 percent of the tax developed for the current tax year or 120 percent of the tax developed for the prior tax year. Estimated tax payments for a corporation for tax year 2008 must total 90 percent of the tax developed for the current tax year or 130 percent of the tax developed for the prior tax year. For 2008, an individual is not liable for penalty and interest attributable to underpayment of estimated tax on a deficiency in estimated tax attributable to the difference between the tax rates of 6.25 percent and 5.5 percent calculated on income in excess of \$1,000,000.

Pass-Through Entity Nonresident Tax Rates: For tax years beginning after December 31, 2007, the tax rates will be 7.5 percent for nonresident individual members (including nonresident fiduciaries) and 8.25 percent for nonresident entity members. These same rates will apply to the sale or transfer of real property or tangible personal property by a nonresident individual or nonresident entity.

Nonresident Income Tax: The statute was amended to change the calculation of the state income tax on nonresident returns. The state income tax imposed on a nonresident is calculated using the following formula, in accordance with Section 10 of the Tax-General Article.

$$\begin{array}{rcccl}
 \text{Applicable} & & & & \\
 \text{tax rate under} & & & & \\
 \text{Section} & \mathbf{X} & \text{Nonresident's} & & \\
 10-105(a) & & \text{Maryland taxable income} & & \\
 & & \text{calculated } \textit{without} \text{ the} & \mathbf{X} & \\
 & & \text{subtractions under Section} & & \\
 & & 10-210(b), (e) \text{ and } (f) & & \\
 & & \text{Nonresident's Maryland taxable income} & & \\
 & & \text{calculated } \textit{with} \text{ the subtractions under} & & \\
 & & \text{Section 10-210(b), (e) and (f)} & & \\
 & & \hline
 & & \text{Nonresident's Maryland taxable income} & = & \text{Nonresident} \\
 & & \text{calculated } \textit{without} \text{ the subtractions under} & & \text{income tax} \\
 & & \text{Section 10-210(b), (e) and (f)} & & \text{amount}
 \end{array}$$

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