

Tax Alert



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06-12

Changes in Income Tax and Employer Withholding

In the May 2012 Special Session, the Maryland General Assembly passed Senate Bill 1302, which resulted in major changes in the income tax law that affect employer withholding for tax years beginning after Dec. 31, 2011. For more details on these changes, visit the Comptroller's website: www.marylandtaxes.com

Changes in Tax Rates and Rate Brackets: The General Assembly has altered the income tax rates and rate brackets for individuals for all tax years beginning after Dec. 31, 2011. The new withholding tax rates and rate brackets are indicated below:

Taxpayers Filing Jointly, Surviving Spouse, Head of Household Returns		All Other Individual Taxpayers	
<u>Taxable Income</u>	<u>Tax Rate</u>	<u>Taxable Income</u>	<u>Tax Rate</u>
\$0 – \$150,000	4.75 percent	\$0 – \$100,000	4.75 percent
\$150,001 – \$175,000	5 percent	\$100,001 – \$125,000	5 percent
\$175,001 – \$225,000	5.25 percent	\$125,001 – \$150,000	5.25 percent
\$225,001 – \$300,000	5.5 percent	\$150,001 – \$250,000	5.5 percent
In excess of \$300,000	5.75 percent	In excess of \$250,000	5.75 percent

Note: Maryland continues to have a graduated tax on the first \$3,000 of income; however, the lower rates are not recognized for withholding tax purposes.

Changes 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 remains at \$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 Jointly, 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	\$1,600	\$100,001 - \$125,000	\$1,600
\$175,001 - \$200,000	\$800	\$125,001 - \$150,000	\$800
In excess of \$200,000	\$0	In excess of \$150,000	\$0

For the deaf and hard of hearing: TTY users can call via Maryland Relay at 711. If you need reasonable accommodations for a disability, please contact us before you visit. If you need the information in the publication in an alternate format, contact the Comptroller's Office.

Employee Exemption Certificate: Form MW507, Employee's Maryland Withholding Exemption Certificate, has been updated and reflects a revised worksheet for employees to calculate the maximum number of exemptions they may claim for withholding tax purposes. Employees who are single and who anticipate to have a federal adjusted gross income of over \$100,000, or will be filing jointly, head of household, or surviving spouse and anticipate having a federal adjusted gross income of over \$150,000, should be encouraged to complete a new MW507, because the number of exemptions to which they will be entitled for tax withholding purposes will decrease. Form MW507 is available on our website.

Gambling Winnings: Beginning Jan. 1, 2012, when wagering is subject to withholding, a payor shall withhold tax at a rate of 8.75 percent on a resident's winnings derived from wagering. For a nonresident, the withholding rate is 7.0 percent.

Pass-Through Entity Nonresident Tax Rates: For tax years beginning after Dec. 31, 2011, the tax rates will be 7.0 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.