

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 517 (Delegate Ports, et al.)
Ways and Means

Income Tax - Reduction

This bill reduces the income tax rate on the first \$1,000 of taxable income from 2% to 0%. It also increases the personal exemptions from \$1,200 to \$2,200, and the maximum two-earner subtraction modification from \$1,200 to \$1,600. Piggyback tax liability is determined without regard to these changes.

This bill is effective July 1, 1996, and applies to all taxable years beginning after December 31, 1996.

Fiscal Summary

State Effect: General fund revenues will decline by an estimated \$120.7 million in FY 1997. Out-year losses reflect the full fiscal year effect of the bill and increasing numbers of taxpayers. General fund expenditures could increase by \$102,000 in FY 1997 and \$77,000 in FY 1998.

(\$ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	(\$120.7)	(\$238.6)	(\$242.7)	(\$246.6)	(\$254.7)
GF	0.1	0.1	0.0	0.0	0.0
Net Effect	(\$120.8)	(\$238.7)	(\$242.7)	(\$246.6)	(\$254.7)

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

Local Effect: None. This bill requires piggyback taxes to be calculated without regard to the changes to State tax liability arising from this bill. Expenditures would not be affected.

Fiscal Analysis

State Revenues: General fund revenues would decline an estimated \$120.7 million in fiscal 1997, according to the income tax simulation model. Exhibit 1 shows the tax year and fiscal year losses of these changes. The tax year losses are distributed 51% to the first fiscal year and 49% to the second, as has been the recent pattern.

Exhibit 1 General Fund Revenue Loss from HB 517 (\$ in millions)

<u>Tax Year</u>	<u>Revenue Loss</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>
1997	(\$236.6)	(\$120.7)	(\$115.9)			
1998	(240.5)		(122.7)	(\$117.8)		
1999	(244.8)			(124.8)	(\$120.0)	
2000	(248.3)				(126.6)	(\$121.7)
2001	(260.8)					(133.0)
	FY Loss	(\$120.7)	(\$238.6)	(\$242.7)	(\$246.6)	(\$254.7)

The proposed fiscal 1997 State budget is based on revenue estimates that do not account for this revenue loss.

State Expenditures: The Office of the Comptroller will incur costs for printing and distributing new forms. In fiscal 1997, new withholding books will have to be printed and mailed, which will cost about \$64,700 and \$37,500 respectively. In fiscal 1998, programming changes to the State of Maryland Tax (SMART) system will be required. Programming to calculate the local tax based on the State tax disregarding the changes to the State tax will cost approximately \$45,000. The remainder of the programming changes will cost about \$32,000.

The provision in the bill requiring local taxes to be calculated without regard to the other law changes in the bill will add a new layer of complexity to the tax calculation. An additional computation will be required, making the tax return more difficult to complete. The Department of Fiscal Services advises that there may be additional costs to the Comptroller's office to administer the tax given the likelihood of an increased error rate on Maryland tax returns.

The Department of Fiscal Services advises that if other legislation is also enacted changing the Maryland individual income tax calculation, economies of scale regarding computer programming changes could be realized. This could reduce computer programming costs associated with this bill and other tax legislation.

Local Revenues: Local revenues are not affected. This bill requires the determination of the piggyback tax before the reductions to State tax liability arising from this bill.

Additional Comments: Exhibit 2 shows the savings in 1997 for single individuals earning \$25,000 and \$60,000 (with the standard deduction and \$8,000 of itemized deductions), and for families of four earning \$40,000 and \$100,000 (with the standard deduction and \$10,000 of itemized deductions). This example assumes a local income tax rate of 2.5%.

**Exhibit 2
Examples of Tax Savings**

	<u>Single Individual</u>		<u>Family of Four</u>	
	\$25,000	\$60,000	\$40,000	\$100,000
Gross Income				
State Taxes	1,030	2,480	1,440	4,140
Local Taxes	515	1,240	720	2,070
Total 1996 Taxes	1,545	3,720	2,160	6,210
1997 State Taxes	960	2,410	1,200	3,900
1997 Local Taxes	515	1,240	720	2,070
Total 1997 Taxes	1,475	3,650	1,920	5,970
Tax Savings	70	70	240	240

Of the total reduction in State taxes paid by Maryland taxpayers, about 15% will be paid in higher federal income taxes by those who itemize. Of the remaining savings, a portion will be spent and a portion will be saved. To the extent there is increased spending in Maryland, there will be a stimulative effect on the Maryland economy.

Information Source(s): Office of the Comptroller (Revenue Administration Division),
Department of Fiscal Services

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