

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

House Bill 156 (Chairman, Ways and Means Committee)  
(Departmental - Comptroller)

Ways and Means

**Income Tax - Returns on Withholding - Filing Requirements**

This departmental bill increases the threshold amount of income tax withholding which requires monthly filing from \$400 per quarter to \$700 per quarter. It also allows an employer to file a withholding return annually rather than quarterly if the total amount of income tax required to be withheld is reasonably expected to be less than \$250.

This bill is effective October 1, 1997, and applies to all calendar years beginning after December 31, 1997.

**Fiscal Summary**

**State Effect:** General fund revenues could decline an estimated \$358,300 in FY 1998 (\$340,000 of the loss is a deferral of revenue until FY 1999), and expenditures could decline \$2,100. In the out-years, interest income of \$18,800 will be lost, and savings of \$4,300 would be realized. These changes will grow by 3%, the estimated increase in affected taxpayers (although the lost interest income would also change as interest rates change).

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	(\$358,300)	(\$18,800)	(\$19,400)	(\$20,000)	(\$20,600)
GF Expenditures	(2,100)	(4,300)	(4,400)	(4,600)	(4,700)
Net Effect	(\$356,200)	(\$14,500)	(\$15,000)	(\$15,400)	(\$15,900)

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

**Local Effect:** Local revenues could decline an estimated \$126,700 in FY 1998 (revenue deferred until FY 1999) plus a minimal amount of lost interest income. Expenditures would not be affected.

**Small Business Effect:** The Office of the Comptroller advises that this bill will have

minimal or no impact on small businesses (attached). Fiscal Services concurs with this assessment as discussed below.

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## Fiscal Analysis

**State Revenues:** Fiscal 1998 general fund revenues will decline by an estimated \$358,300, although tax liability does not decrease. Under this bill, an estimated 7,500 taxpayers who currently file quarterly will be able to file annually instead. Thus, withholding payments for these taxpayers for the first two quarters of tax year 1998 will be received in fiscal 1999 (about \$340,000). Additionally, the State will lose interest income of about \$18,600 annually due to the delayed payments (based on an interest rate of 5.3%, the May 1996 average rate on State funds). This loss increases by the growth in taxpayers with annual withholding under \$250, which is estimated to be 3%.

Allowing quarterly filing for those with \$700 of withholding or less codifies existing practice.

**State Expenditures:** Administrative costs will decline by an estimated \$2,100 in fiscal 1998 due to the lower number of transactions. This will reduce fees paid to the State's lockbox contractor, who receives withholding payments and credits them to the State's account. The charge is 18.53¢ per transaction. In fiscal 1999, when each affected taxpayer will file only once rather than four times, savings will be an estimated \$4,300. This loss increases by the growth in taxpayers with annual withholding under \$250, which is estimated to be 3%.

**Local Revenues:** Local revenues in fiscal 1998 will decline by an estimated \$126,700 through delayed distributions of withholding revenue, although tax liability does not decrease. Local governments will lose interest income, although this amount is expected to be minimal.

**Small Business Effect:** The Office of the Comptroller notes that most employers with annual withholding under \$250 are probably employers of domestic help rather than actual small businesses. However, for those small businesses with annual withholding under \$250, administrative burdens would be reduced under this bill. Whether this would result in cost savings for these businesses is unknown.

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

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