HB 556

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 556 (Delegate Greenip, *et al.*)
Ways and Means

Income Tax - Personal Exemptions and Standard Deduction - Cost-of-Living Adjustment

This bill increases, by a specified cost-of-living adjustment, the amount allowed to be deducted for personal exemptions and the minimum and maximum amounts for the standard deduction under the Maryland income tax for tax years after 2000.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: General fund revenue decrease of approximately $6.4 million in FY 2001. Future years reflect an increased number of exemptions and increased personal exemption and standard exemption amounts. Expenditure increase of $115,000 in FY 2003 and 2004.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	($6.4)	($20.3)	($33.8)	($46.1)	($64.3)
GF Expenditures	$0.0	$0.0	$0.115	$0.115	$0.0
Net Effect	($6.4)	($20.3)	($33.915)	($46.215)	($64.3)

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

Local Effect: Local government revenue loss of approximately $4 million in FY 2001.

Small Business Effect: Minimal.

Analysis

Bill Summary: Currently, the cost-of-living adjustment, as defined by the Internal Revenue Code, is the percentage (if any) by which the Consumer Price Index (CPI) for the preceding calendar year exceeds the CPI for calendar 1992. The bill substitutes calendar 1999 for calendar 1992 for the purposes of determining the cost-of-living increase.

Current Law: The personal exemption is $1,850 for tax year 2000, $2,100 for tax year 2001, and $2,400 for tax years 2002 and beyond; the standard deduction minimum and maximum are $1,500 and $2,000, respectively, for single individuals and married individuals who file a separate return, and $3,000 and $4,000, respectively, for heads of households and married individuals who file a joint return.

State Fiscal Effect: Based on the income tax simulation model, general fund revenues would decrease by approximately $12.8 million in tax year 2001. Although the tax reduction applies to tax year 2001, it is assumed that 50% of the impact of a given tax year will reduce revenues in the first subsequent fiscal year, with the remainder reducing revenues in the second fiscal year. This will account for adjustments to withholding and estimated tax payments. Consequently, general fund revenues are estimated to decrease by $6.4 million in fiscal 2001, reflecting one-half of a tax year. The estimate assumes a personal exemption of $2,150, and a standard deduction minimum and maximum of $1,500 and $2,050, respectively, for single individuals and married individuals who file a separate return, and $3,050 and $4,100, respectively, for heads of households and married individuals who file a joint return for tax year 2001.

The estimate assumes a cost-of-living adjustment increase, compared to 1999, of 2.5% for tax year 2001, 5% for tax year 2002, 7.4% for tax year 2003, 10% for tax year 2004, and 12.6% for tax year 2005.

Future year estimates reflect an increased number of exemptions and increased personal exemption and standard exemption amounts.

The Office of the Comptroller advises that beginning in tax year 2003 it would incur printing costs of $70,000 to print new withholding table booklets and postage costs of $45,000 to mail the new booklets.

Local Fiscal Effect: Local government revenues would decrease by approximately 2.71% of the change in taxable income for tax year 2001 and 2.74% for tax years 2002 and beyond, or 62.5% of the State revenue impact. For fiscal 2001, the total local government loss would be approximately $4 million, and for fiscal 2002 approximately $12.7 million.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative

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