

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 447 (Delegate Stein, *et al.*)
Health and Government Operations

Tax Expenditure Report - Internet

This bill requires the Department of Budget and Management (DBM) to post on its web site the tax expenditure report produced by the department.

Fiscal Summary

State Effect: None. DBM can handle this requirement with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: DBM is required to provide the General Assembly on a biennial basis with a report that estimates the reduction in State revenues and local government revenues collected by the State resulting from specified tax exemptions. For each exemption, the report must (1) estimate the amount of revenue reduction resulting from the exemption; (2) identify the person or part of the population that benefits from the exemption; and (3) indicate whether the exemption conflicts with any other State program. Other units of State government are required to assist DBM in the preparation of the report. DBM is not required to post this report on its web site.

Background: Tax expenditures are generally considered revenue losses attributable to the provisions of State tax laws which allow a special exclusion, exemption, credit, or a preferential rate of taxation. The current tax expenditure report divides tax expenditures into three classes – “structural,” “categorical,” and “incidental.” Structural tax

expenditures are tax expenditures that are generally available to all taxpayers rather than a selected group of taxpayers. Examples include the regular personal exemption and the standard deduction of the personal income tax. Categorical tax expenditures are fairly narrow provisions that are only available to certain groups of taxpayers. These expenditures may have a policy goal (increase economic development, reduce poverty) or can merely provide a tax benefit to a targeted group. Incidental tax expenditures are generally implemented to avoid double-taxation or eliminate administrative burdens.

The number of tax expenditures has increased significantly over time – DBM’s latest report issued on January 2010 lists 100 pages of tax expenditures. This report estimated that in fiscal 2010 categorical tax expenditures reduced State revenues by the highest amount (\$3.7 billion), followed by incidental (\$2.0 billion) and structural (\$771.5 million). It should be noted that some of the tax expenditure revenue loss represents conformity to federal law. For example, itemized deductions for home mortgage interest paid and charitable contributions flow through for State income tax purposes and reduce State income tax revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Comptroller’s Office,
Department of Legislative Services

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mlm/hlb

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