HB 1114

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1114 (Delegate Barve, *et al.*)
Ways and Means

Income Tax - Depreciation Modification - First-Year Depreciation

This bill allows property that qualifies for depreciation under the Internal Revenue Code (IRC) to be depreciated under the State income tax by 100% in the year in which the property is placed in service. The bill also conforms the State income tax to any bonus depreciation amounts provided under Section 168(k) of the IRC.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by at least $368.3 million in FY 2015 due to additional depreciation amounts claimed. Transportation Trust Fund (TTF) revenues decrease by $60.3 million, and Higher Education Investment Fund (HEIF) revenues decrease by $21.9 million in FY 2015. No effect on expenditures.

($ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	($368.3)	($257.6)	($186.9)	($130.8)	($88.4)
SF Revenue	($82.2)	($57.8)	($37.4)	($26.1)	($17.8)
Expenditure	0	0	0	0	0
Net Effect	($450.5)	($315.5)	($224.3)	($156.9)	($106.2)

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

Local Effect: Local income tax revenues decrease by at least $56.0 million in FY 2015 and $12.9 million in FY 2019. Local highway user revenues decrease by at least $5.8 million in FY 2015 and $1.2 million in FY 2019.

Small Business Effect: Meaningful.

Analysis

Current Law: The State generally conforms to federal depreciation and expensing rules. However, the State is currently decoupled from any additional depreciation amounts under § 168(k) and expensing under § 179 of the IRC. Taxpayers are required to make an adjustment for Maryland income tax purposes to reflect the changes made to the depreciation allowance under § 168(k) and expensing under § 179.

Background: Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property. It is an annual allowance for the wear and tear, deterioration, or obsolescence of the property. Most types of tangible property (except land) such as buildings, machinery, vehicles, furniture, and equipment are depreciable. Likewise, certain intangible property such as patents, copyrights, and computer software is also depreciable.

Specific rules under § 168 of the IRC govern the amount of depreciation that can be deducted in each year based on the allowable method, class life of the property, depreciable basis of the property, and whether any amount is expensed. Most property is depreciated according to the Modified Accelerated Cost Recovery System (MACRS).

The U.S. Congress has enacted legislation several times providing for a temporary additional depreciation amount for the first year in which the property is placed in service. As with Section 179 expensing, bonus depreciation is designed to provide an incentive for businesses to make capital investments by allowing immediate deductions that result in a decrease in tax liabilities and reduce the after tax cost of acquiring capital. In certain cases, a business can claim both the Section 179 deduction and bonus depreciation for the cost of the property in excess of the Section 179 limitation.

This bonus depreciation has allowed taxpayers to depreciate 30%, 50%, or 100% of the adjusted basis of certain qualified property during the year that the property is placed in service. Federal legislation allowing for bonus depreciation over specified periods include the Job Creation and Worker Assistance Act of 2002; the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; and the American Taxpayer Relief Act of 2012.

The bonus depreciation for qualifying property placed in service during 2013 is equal to 50%. Certain longer-lived and transportation equipment can qualify for this bonus depreciation if placed in service through 2014, but otherwise bonus depreciation is not allowed for properties acquired after December 31, 2013.

State Revenues: The bill allows property that qualifies for depreciation under the IRC to be depreciated under the State income tax by 100% in the year in which the property is placed in service beginning in tax year 2014. As a result, general fund revenues decrease by at least $368.3 million in fiscal 2015. **Exhibit 1** illustrates the fiscal impact in fiscal 2015 through 2019. The estimated State fiscal impact is based on recent Joint Committee on Taxation estimates for providing enhanced depreciation amounts adjusted for estimated federal effective tax rates, Maryland's estimated share of the national economy, and State tax rates.

Exhibit 1
Revenue Impact of 100% First-year Depreciation
Fiscal 2015-2019
($ in Millions)

	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
General Fund	($368.3)	($257.6)	($186.9)	($130.8)	($88.4)
HEIF	(21.9)	(15.4)	(10.9)	(7.6)	(5.2)
TTF	(60.3)	(42.4)	(26.5)	(18.5)	(12.6)
State	*(54.6)*	*(38.4)*	*(24.0)*	*(16.7)*	*(11.4)*
Local	*(5.8)*	*(4.1)*	*(2.5)*	*(1.8)*	*(1.2)*
Total	**($450.5)**	**($315.5)**	**($224.3)**	**($156.9)**	**($106.2)**
Local Income Tax	($56.0)	($38.5)	($27.8)	($19.8)	($12.9)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

Local Revenues: Local income tax revenues decrease by $56.0 million in fiscal 2015 and $12.9 million in fiscal 2019, as shown in Exhibit 1. In addition, local governments receive, as highway user revenues, a portion of the Transportation Trust Fund share of corporate income taxes as illustrated in Exhibit 1.

Small Business Effect: Small businesses will benefit from the reduction in State tax liabilities resulting from additional depreciation amounts.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Joint Committee on Taxation, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2014
ncs/jrb

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