SB 70

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 70 (Senator Haines)
Budget and Taxation

Income Tax - Capital Gains

This bill creates a subtraction modification of 50% of the first $50,000 of any net capital gains for both individual and corporate income taxes. The amount of the modification is reduced, but not below zero, by any part of net capital gains excluded from federal adjusted gross income for federal income tax purposes. Tax preference items must be modified by adding the amount of the subtraction allowed by this bill.

This bill is effective July 1, 1996, and applies to all tax years beginning after December 31, 1995.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $57.6 million in FY 1997 and $40.2 million in FY 1998. Special fund revenues could decline by $156,000 in FY 1997. The revenue loss in FY 1997 contains one and one-half years of personal income tax loss due to the effective date of this bill. Expenditures would not be affected.

($ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	($57.6)	($40.2)	($41.7)	($43.2)	($45.2)
SF Revenues	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
GF Expenditures	--	--	--	--	--
Net Effect	($57.7)	($40.3)	($41.8)	($43.3)	($45.3)

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

Local Effect: Local revenues could decline by an estimated $31.1 million in FY 1997. Expenditures would not be affected.

Fiscal Analysis

State Revenues: The income tax simulation model estimates that allowing this capital gains subtraction could reduce individual income tax revenues by $57.0 million in fiscal 1997, and $39.7 million in fiscal 1998. The fiscal 1997 loss includes one and one-half years of the effect of this bill, because subtractions taken in all of tax year 1996 and half of 1997 will be accounted for in fiscal 1997.

Assuming that all corporations with net capital gains will have at least $50,000 of net capital gains, the total capital gains subtraction from corporate income would be $8.95 million. The revenue loss at the 7% corporate income tax rate would be $626,500. Out-year losses depend on the change in the number of corporations, if all corporations receive at least $50,000 of net capital gains. For the first tax year, 95% of this loss will be realized in the second fiscal year (fiscal 1997) and 30% in the third fiscal year (fiscal 1998). In succeeding years, 25% of the loss will be realized in the first fiscal year, 70% in the second, and 5% in the third.

Assuming that the corporate loss each tax year is $626,500, the fiscal 1997 revenue loss would be $751,800. The fiscal 1998 loss, and the loss for each succeeding fiscal year, would be $626,500.

Corporate income tax revenues are distributed to the Transportation Trust Fund (TTF), the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the TTF, and the general fund. As a result of this distribution, the general fund would lose $563,850 in fiscal 1997, and $469,875 in fiscal 1998. The TTF would lose $80,550 and $67,125, respectively, while the GMVRA would lose $107,400 and $89,500 respectively. The GMVRA is distributed 70% to the State and 30% to local governments, so the State's share of the GMVRA loss is $75,200 in fiscal 1997.

Combining the personal and corporate income tax revenue loss, the general fund would lose approximately $57.6 million in fiscal 1997 and $40.2 million in fiscal 1998. State special fund revenues would decline $155,700 and $129,800, respectively.

State Expenditures: The Office of the Comptroller advises that form and instruction changes will cost $2,700. The Department of Fiscal Services advises that since forms and instructions are updated annually, the costs for form changes resulting from this bill can be absorbed within existing resources.

Local Revenues: Local governments will lose piggyback revenues of about 54.5% of the State loss in each fiscal year. For fiscal 1997 this is estimated to be $31.1 million, and in fiscal 1998 the loss is an estimated $21.6 million.

Thirty percent of the funds in the GMVRA is distributed to localities. This amount is split 50-50 between Baltimore City and the counties. Therefore, Baltimore City and the counties as a group will each lose $37,600 in fiscal 1997.

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

Fiscal Note History: First Reader - February 8, 1996
ncs

Analysis by: David F. Roose
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710