HB 258

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 258 (Delegate Beck)
Ways and Means

Sales and Use Taxation of Food - State Income Tax Credit for Percentage of County Income Tax

This bill repeals the sales tax exemption for food and allows taxpayers a credit against the State income tax of 12% of the local income tax.

This bill is effective July 1, 1996. The income tax credit applies to all tax years beginning after December 31, 1996.

Fiscal Summary

State Effect: General fund revenues could increase by $110.1 million in FY 1997 and by $1.6 million in FY 1998. Revenues would decrease in future years as the income tax credit will exceed the sales tax revenue increase. General fund expenditures could increase minimally in FY 1997 only.

($ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	$110.1	$1.6	($5.1)	($13.2)	($20.3)
GF Expenditures	--	--	--	--	--
Net Effect	$110.1	$1.6	($5.1)	($13.2)	($20.3)

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

Local Effect: None.

Fiscal Analysis

State Revenues: The repeal of the sales tax exemption for food could increase general fund revenues by approximately $223.9 million in fiscal 1997. This estimate is based on the following facts and assumptions:

- per capita expenditures on food which will become taxable will total $1,056 for 1997, and will increase at approximately 2.0% per year;
- the population of Maryland in fiscal 1997 is 5,160,800, and will increase at approximately 1% per year;
- sales of snack foods, prepared foods, crabs, and sales by food stamps (currently taxable or exempt under current law and this bill) will total $927.4 million in fiscal 1997, and will increase by approximately 3.2% per year; and
- vendor commissions will average 1%.

Sales of food made taxable by this bill will total $4,522 million. At the 5% sales tax rate, $226.1 million of revenue will result, less the 1% commission, leaving net revenue of $223.9 million in fiscal 1997. The combined effect of the above growth rates is a growth in tax revenue of approximately 3.1% per year.

The credit against the State income tax of 12% of the local income tax could result in a revenue loss of approximately $113.8 million in fiscal 1997, assuming taxpayers adjust their withholding. In fiscal 1998, the first full fiscal year in which this credit is in effect, the revenue loss could total $229.6 million. The income tax simulation model was used to estimate these losses and the out-year losses, which are shown in the table below.

GENERAL FUND REVENUE EFFECT OF HB 258

($ in millions)

Fiscal Year	Sales Tax Effect	Income Tax Effect	Net General Fund Effect
1997	223.9	-113.8	110.1
1998	231.2	-229.6	1.6
1999	238.0	-243.1	(5.1)
2000	245.0	-258.2	(13.2)
2001	252.5	-272.8	(20.3)

State Expenditures: The Office of the Comptroller advises that programming changes to the income tax imaging and processing systems will result in an expenditure increase of $41,000 in fiscal 1997. The Department of Fiscal Services advises that if other legislation is passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This would reduce computer programming costs associated with this bill and other income tax legislation.

Information Source(s): Office of the Comptroller (Compliance Division, Revenue Administration Division), Department of Human Resources, Department of Health and Mental Hygiene, U.S. Department of Labor - Bureau of Labor Statistics (Consumer Expenditure Survey, 1989 and 1994), Department of Fiscal Services

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