HB 484

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 484 (Delegate Gordon, *et al.*)
Ways and Means

Supplemental Income Tax on Corporations - Developmental Disabilities - Waiting List Equity Fund

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This bill imposes a supplemental corporate income tax of 0.25% of taxable income. Revenues from the supplemental tax are to be distributed to the Waiting List Equity Fund, and are intended to supplement and not supplant funding for services provided to developmentally disabled individuals. Corporations are also allowed a credit against the supplemental tax equal to 50% of the wages paid to developmentally disabled individuals.

This bill is effective July 1, 1997, and applies to all taxable years beginning after December 31, 1996.

Fiscal Summary

State Effect: Waiting List Equity Fund revenues could increase by a maximum $17.8 million in FY 1998 (plus a potential federal fund increase of $7.5 million) increasing by about 3% in the out-years, although these increases would be mitigated by an unknown amount due to the tax credits authorized for hiring developmentally disabled individuals. Waiting List Equity Fund expenditures could increase by the amount of the revenue increase. General fund expenditures could increase $36,000 in FY 1998.

Local Effect: None.

Small Business Effect: Meaningful impact on small businesses, as discussed below.

Fiscal Analysis

State Revenues: Waiting List Equity Fund revenues would increase by an estimated $17.8 million in fiscal 1998, offset by the credits granted against the supplemental tax. The estimated fund balance for fiscal 1998 is $1,079,922.

The supplemental tax would increase corporate income tax revenues by about 3.6%, or $14.9 million in tax year 1997, increasing by about 3% per year. About 95% of tax year 1997 revenues would be received in fiscal 1998; the remainder in fiscal 1999. Future year increases would be received in a 25%-70%-5% fiscal year distribution as corporations adjust their withholding. Therefore, fiscal 1998 revenues would increase by an estimated $17.8 million, fiscal 1999 revenues by $15.5 million, and fiscal 2000 by $16.4 million.

If these increased revenues are expended on services covered under the Home and Community-Based Waiver, 42% matching federal funds may be claimed, potentially raising another $7.5 million.

The credit for wages paid to developmentally disabled individuals would offset this revenue increase to some degree. Approximately 17,000 individuals are eligible to receive services from the Developmental Disabilities Administration. The number employed by corporations is unknown. For each 1% of these individuals who are hired by corporations and paid the minimum wage, supplemental corporate income tax revenue would decline by $863,000 in 1997 and $911,000 in 1998 (when the minimum wage increases). If about 16.8% of eligible individuals are employed in 1998, the credit would completely offset the revenue increase from the supplemental tax. Any potential federal fund increase would also be diminished by the credits.

This credit cannot be carried forward, and it is assumed that it can only be claimed against the supplemental tax, so there would be no impact on other funds or revenue sources.

State Expenditures: The revenue increase, if any, increases the potential amount of expenditures from the Waiting List Equity Fund. Any increase in expenditures, however, would have to be approved through the budget process.

The Office of the Comptroller will incur costs of $36,000 in fiscal 1998 for computer programming changes to the tax processing system. The Department of Fiscal Services advises that if other legislation is also passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This could reduce computer programming costs associated with this bill and other income tax legislation.

Small Business Effect: This bill will increase State corporate income tax liability by about

3.6% for all corporations, including those which are small businesses. This tax increase could be offset through the hiring of several developmentally disabled individuals. It is likely that small corporations would not be as easily able to offset some or all of the increased tax, since their resources available for training developmentally disabled individuals are likely not as great as those of large corporations. Thus, the burden of this tax could fall disproportionately on small corporations.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Health and Mental Hygiene (Developmental Disabilities Administration), Department of Fiscal Services

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