HB 914

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 914 (Delegate Finifter, *et al.*)
Ways and Means

Horse Racing and Breeding Industry Retention Tax Act of 1997

This bill creates a subtraction modification for both individual and corporate income taxes in the amount of the lesser of: (1) net losses from passive activities that are qualified horse racing and breeding activities; or (2) the passive activity loss that is disallowed for federal income tax purposes. A subtraction is also created in the amount of 50% of any gain recognized from the sale or exchange of an interest in a qualified horse racing and breeding activity.

If the subtraction relating to passive activity losses is claimed by a taxpayer, that amount must be included as an addition modification in the following tax year.

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

Fiscal Summary

State Effect: Indeterminate effect on general and special fund revenues, as discussed below. Expenditures would not be affected.

Local Effect: Indeterminate effect on local revenues as discussed below. Expenditures would not be affected.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

State Revenues: General fund and special fund revenues would decline an indeterminate amount beginning in fiscal 1999. The net losses from passive activities which are qualified horse racing or breeding activities are unknown, as are the gains from sales or exchanges of interests in qualified horse racing or breeding activities. Any subtractions taken for the individual income tax for a given tax year would reduce general fund revenues by 5% of the subtraction amount the following fiscal year. Subtractions taken for the corporate income tax would reduce general fund and Transportation Trust Fund (TTF) revenues by 7% of the subtracted amount. To the extent revenue declines in a fiscal year for subtractions for passive activity losses, revenues will increase in the following fiscal year by the same amount due to the addition modification.

As a point of information, 3,628 individuals were licensed as thoroughbred or harness horse owners in 1995. These individuals could benefit from the subtractions created by this bill. The number of individuals with ownership interests in horse breeding activities is unknown.

Local Revenues: Local revenues would decline by 54.5% of any individual income tax revenue loss. Local revenues would also decline slightly for any subtractions claimed against the corporate income tax, since a portion of these revenues are distributed to local governments through the TTF.

Small Business Effect: This bill would allow individuals involved in qualified horse racing or breeding activities to realize a tax benefit for the full amount of any related passive activity loss in the tax year in which the loss occurred (for federal income tax purposes, a portion of these losses may be disallowed in the year in which they occur, but can be carried forward and used in later years). Additionally, only half of the gains realized from the sale of an ownership interest in a qualified horse racing or breeding activity would be taxable. These tax savings could be significant.

Information Source(s): Office of the Comptroller (Revenue Administration Division); Department of Labor, Licensing, and Regulation; Department of Fiscal Services

Fiscal Note History: First Reader - February 18, 1997
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