SB 744

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 744 (Senator Hoffman)
Budget and Taxation

Qualified Capital Gains - Maximum Tax

This bill creates a tax credit, against both State and local income taxes, of the amount by which the State income tax exceeds the sum of $65,000 and the tax on Maryland taxable income less qualified capital gains.

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

Fiscal Summary

State Effect: Potential indeterminate general fund revenue loss in FY 1999 and beyond. Expenditures would not be affected.

Local Effect: Local revenues could decline from 30% to 60% of any general fund revenue loss, as discussed below. Expenditures would not be affected.

Small Business Effect: None. This bill would not have a material affect on small business activity.

Fiscal Analysis

Background: The credit created by this bill affects those taxpayers with qualified capital gains (long-term capital gains less short-term capital losses) of $1.3 million or more. The credit has the effect of capping capital gains subject to tax at $1.3 million. **Exhibit 1** demonstrates several examples of how the credit operates.

Exhibit 1
Examples of Effect of SB 744

	Taxpayer A	Taxpayer B	Taxpayer C	Taxpayer D
Total Taxable Income	$1,500,000	$1,500,000	$2,000,000	$2,000,000
Qualified Capital Gains	1,000,000	1,400,000	1,400,000	1,800,000
Other Taxable Income	500,000	100,000	600,000	200,000
State Taxes	74,940	74,940	99,940	99,940
$65,000+Tax on Other Taxable Income	89,940	69,940	94,940	74,940
Amount of Credit	0	5,000	5,000	25,000
Net Taxes Paid	89,850	69,940	94,940	74,940
Value of Credit in Terms of Taxable Income	0	100,000	100,000	500,000

Taxpayer A does not receive a tax credit, because qualified taxable gains are less than $1.3 million. Taxpayers B and C receive the same credit, $5,000. This credit equates to exempting $100,000 of income from tax, which is the amount by which their qualified capital gains exceed $1.3 million. Taxpayer D, with the same total taxable income as taxpayer C, receives a $25,000 credit. This equates to exempting $500,000 of income from tax, which again is the amount by which qualified capital gains exceed $1.3 million.

State Revenues: This bill would result in an indeterminate general fund revenue loss. There will be an estimated 705 returns with tax liability greater than $65,000 in tax year 1997. On average, State tax liability is estimated at $108,257, while the average State tax liability without capital gains is estimated at $73,865, implying average capital gains of $687,840. Thus, the average taxpayer with State tax liability greater than $65,000 would not receive the credit provided by this bill. However, it is anticipated that some unknown number of individuals would have qualified capital gains over $1.3 million. The general fund revenue loss would be 5% of the total qualified capital gains over $1.3 million for each taxpayer. If, for example, ten taxpayers have $2 million of capital gains each, the revenue loss would be $350,000.

State Expenditures: The Office of the Comptroller advises that $2,700 of expenditures would be incurred for form and instruction changes in fiscal 1998. The Department of Fiscal Services advises that since forms and instructions are updated annually, these costs could be incurred within existing budgeted resources.

Local Revenues: Since this credit serves to reduce both State and local income taxes, piggyback taxes would be reduced by an average of 54.5% of the State revenue loss. Since this credit would be claimed by very few taxpayers, however, the actual piggyback loss could range from 30% to 60% of the State loss, depending on the counties of residence of taxpayers claiming this credit.

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

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