SB 655

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 655 (Senator Pinsky, *et al.*)
Budget and Taxation

Individual Income Tax - Rates

This bill alters the existing income tax brackets and adds additional brackets. Additionally, the bill provides that the State will distribute to counties the funds necessary to maintain for each fiscal year the revenues to income ratio for fiscal 1999.

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

Fiscal Summary

State Effect: General fund revenues would increase by an estimated $80,600 in FY 1998, $1.6 million in FY 1999 and $4.7 million in FY 2000, increasing by about 115% in the out-years. General fund expenditures would increase by $141,200 in FY 1998 and an estimated $15.8 million in FY 1999, declining by about 13% in the out-years.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$0.1	$1.6	$4.7	$10.1	$21.9
GF Expenditures	0.1	15.8	14.0	12.0	10.3
Net Effect	($0.0)	($14.2)	($7.3)	($1.9)	$11.6

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

Local Effect: Local revenues would increase by an estimated $16.2 million in FY 1999. Expenditures would not be affected.

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

Fiscal Analysis

Bill Summary: This bill does not affect the first two tax brackets. For joint filers, the 4% bracket is for taxable income from $2,000 to $10,000; the 5% bracket is for taxable income from $10,000 through $200,000; a 6% bracket is created for taxable income from $200,000 through $350,000; a 6.5% bracket is created for taxable income from $350,000 through $500,000; and a 7% bracket is created for taxable income over $500,000.

For individuals, the 4% bracket is for taxable income from $2,000 to $5,000; the 5% bracket is for taxable income from $5,000 through $100,000; a 6% bracket is created for taxable income from $100,000 to $200,000; a 6.5% bracket is created for taxable income from $200,000 through $300,000; and a 7% bracket is created for taxable income over $300,000.

The bill also provides for State grants to any counties whose revenues to income ratio falls below that for fiscal 1999, adjusted for the piggyback rate. The revenues to income ratio is defined as the ratio of piggyback revenues to Maryland taxable income for county residents for the tax year preceding the fiscal year (i.e., the fiscal 1999 revenues to income ratio refers to tax year 1998).

State Revenues: The Maryland income tax simulation model estimates that this bill would result in an estimated revenue increase of $158,000 in tax year 1998, $2.9 million in tax year 1999 and $6.4 million in tax year 2000. Fiscal 1998 general fund revenues would increase by about $80,600, fiscal 1999 revenues would increase by about $1.6 million, and fiscal 2000 revenues would increase by about $4.7 million. Out-year gains would increase by about 115% annually.

State Expenditures: General fund expenditures would increase to maintain all counties at their fiscal 1999 revenues to income ratios. Twenty jurisdictions would receive grants under these provisions at an estimated cost of $15.8 million in fiscal 1999. Five jurisdictions would have higher revenues to income ratios under this bill (Baltimore, Kent, Montgomery, Queen Anne's, and Talbot counties), and would therefore not be eligible for the grants. The cost of these grants declines by approximately 12% per year.

The Office of the Comptroller advises that expenditures of $40,000 would be incurred for changes to the computer tax processing system. Printing and mailing new withholding tables would cost $101,200. These costs would be incurred in fiscal 1998.

The Department of Fiscal Services advises that if other legislation is also enacted changing the Maryland individual 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 tax legislation.

Local Revenues: Revenues would increase for the five jurisdictions ineligible to receive the State grants, totaling an estimated $17.4 million. Revenues for other jurisdictions (including the grants from the State) would decline slightly, totaling $1.2 million. The net effect is a $16.2 million increase.

Small Business Effect: Many different forms of businesses pay the individual income tax rather than the corporate income tax, including sole proprietorships, partnerships, limited liability corporations, and subchapter S corporations. Most, but not all, businesses of these types are small businesses. The total number of these types of businesses, as well as the number which are small businesses, is unknown.

In tax year 1995, 303,827 individuals owned sole proprietorships, although there were more sole proprietorships than that since some individuals own more than one. A maximum of 160,050 individuals held ownership interests in partnerships, LLCs, and subchapter S corporations, not all of which are small businesses.

These changes to the tax brackets would affect these small businesses as they would all other taxpayers. Small businesses who file jointly with their spouses with taxable income below $284,500 ($193,200 for single filers) would pay less taxes. Those with taxable income over these amounts would pay more taxes.

Most economic studies suggest that there is not a direct correlation between a general tax reduction and an increase in jobs. A negative correlation between high tax rates and job growth during the 1990s has been demonstrated, although this relationship did not hold during the 1980s. No explanation has been given as to why the correlation exists in the 1990s but not the 1980s. Many factors influence the growth of employment in a particular state or region of the county.

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

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