

Department of Legislative Services
 Maryland General Assembly

FISCAL NOTE

House Bill 1070 (Delegate Ports. *et al.*)

Ways and Means

Income Tax Reduction

This bill reduces the income tax rate on the first \$1,000 of taxable income from 2% to 0%. It also increases the personal exemption from \$1,600 to \$2,200 in tax year 1999; from \$1,850 to \$2,450 in tax year 2000; from \$2,100 to \$2,750 in tax year 2001; and from \$2,400 to \$3,000 in tax year 2002. The two-income subtraction is altered to account for the reduction of the tax rate on the first \$1,000 of taxable income. Local governments are held harmless from these changes.

This bill is effective July 1, 1998, and applies to all taxable years beginning after December 31, 1998.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated \$90.3 million in FY 1999. Out-year estimates reflect full implementation of this bill. Expenditures would not be affected.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	(\$90.3)	(\$184.0)	(\$188.4)	(\$187.8)	(\$182.2)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$90.3)	(\$184.0)	(\$188.4)	(\$187.8)	(\$182.2)

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

Local Effect: None.

Small Business Effect: Meaningful.

Fiscal Analysis

State Revenues: Based on 1996 income tax collections and current revenue forecasts, general fund revenues would decline by an estimated \$90.3 million in fiscal 1999; \$184.0 million in fiscal 2000; \$188.4 million in fiscal 2001; \$187.8 million in fiscal 2002; and \$182.2 million in fiscal 2003. This tax reduction would result in a revenue reduction of approximately 14% in tax year 2002 when compared to tax law prior to the 1997 Tax Reduction Act (a \$1,200 personal exemption and a 5% top rate).

The Governor's proposed fiscal 1999 budget is based on revenue reductions resulting from the 1997 Tax Reduction Act. The proposed budget also provides a \$100 million allowance to the Rainy Day Fund to fund the 1997 tax reduction in future years.

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 companies, 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.

An increase in the personal exemption will benefit these small businesses as it will all other taxpayers by allowing such businesses to retain a greater share of taxable income. These small businesses will save varying amounts, depending on the number of exemptions claimed.

Additional Comments: Exhibit 1 shows the approximate annual savings for single individuals earning \$25,000 and \$60,000 (with the standard deduction and \$8,000 of itemized deductions), and for families of four earning \$40,000 and \$100,000 (with the standard deduction and \$10,000 of itemized deductions, two-income subtraction). The table also shows the increased federal income tax liability for those who itemize deductions. Of the total reduction in State taxes paid by Maryland taxpayers, about 15% would be paid in higher federal income taxes by those who itemize.

**Exhibit 1
Examples of Tax Savings**

	<u>Single Individual</u>		<u>Family of Four</u>	
	\$25,000	\$60,000	\$40,000	\$100,000
Gross Income				
Annual State Savings	49	49	158	158
Federal Tax Increase	0	14	0	44
Net Savings	49	35	158	114

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates),
Department of Legislative Services

Fiscal Note History: First Reader - March 10, 1998

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