SB 620

Department of Legislative Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 620 (Senator Haines)
Budget and Taxation

Income Tax - Capital Gains

This bill creates a subtraction modification of 50% of the first $50,000 of any net capital gains for both individual and corporate income taxes. The amount of the modification is reduced, but not below zero, by any part of net capital gains excluded from federal adjusted gross income for federal income tax purposes. Tax preference items must be modified by adding the amount of the subtraction allowed by this bill.

This bill is effective July 1, 1998, and applies to all tax years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $68.3 million in FY 1999 and $46.2 million in FY 2000. Special fund revenues could decline by $188,000 in FY 1999. The revenue loss in FY 1999 contains one and one-half years of personal income tax loss due to the effective date of this bill. Expenditures would not be affected

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($68.3)	($46.2)	($46.6)	($47.1)	($47.8)
SF Revenues	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($68.5)	($46.4)	($46.8)	($47.3)	($48.0)

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

Local Effect: Local revenues could decline by an estimated $37.8 million in FY 1999. Expenditures would not be affected.

Small Business Effect: Potential meaningful effect.

Fiscal Analysis

State Revenues: The income tax simulation model estimates that allowing this capital gains subtraction could reduce individual income tax revenues by $67.7 million in fiscal 1999, and $45.7 million in fiscal 2000. The fiscal 1999 loss includes one and one-half years of the effect of this bill, because subtractions taken in all of tax year 1998 and half of 1999 will be accounted for in fiscal 1999.

Assuming that all corporations with net capital gains will have at least $50,000 of net capital gains, the total capital gains subtraction from corporate income would be $8.95 million. The revenue loss at the 7% corporate income tax rate would be $626,500. Out-year losses depend on the change in the number of corporations, if all corporations receive at least $50,000 of net capital gains. For the first tax year, 95% of this loss will be realized in the second fiscal year (fiscal 1999) and 5% in the third fiscal year (fiscal 2000). In succeeding years, 25% of the loss will be realized in the first fiscal year, 70% in the second, and 5% in the third.

Assuming that the corporate loss each tax year is $626,500, the fiscal 1999 revenue loss would be $751,800. The fiscal 2000 loss, and the loss for each succeeding fiscal year, would be $626,500.

About 25% of corporate income tax revenues are distributed to the Transportation Trust Fund (TTF); the remainder is credited to the general fund. The general fund would therefore lose $563,850 in fiscal 1999, while the TTF would lose $187,950. In fiscal 2000 and beyond, the general fund would lose $469,875, while the TTF would lose $156,625.

Combining the personal and corporate income tax revenue loss, the general fund would lose approximately $68.3 million in fiscal 1999 and $46.2 million in fiscal 2000. TTF revenues would decline by $187,950 and $156,625, respectively.

State Expenditures: The Office of the Comptroller advises that form and instruction changes will cost $1,100. The Department of Legislative Services advises that since forms and instructions are updated annually, the costs for form changes resulting from this bill can be absorbed within existing resources.

Local Revenues: Local governments will lose piggyback revenues of about 55% of the State individual income tax loss in each fiscal year. For fiscal 1999 this is estimated to be $37.7 million, and in fiscal 2000 the loss is an estimated $25.7 million.

Local governments will also lose about $56,400 in fiscal 1999 and $47,000 in fiscal 2000 from the TTF distribution to local governments.

Small Business Effect: Those small businesses with capital gains, including gains from investments and real property, would realize greater after-tax returns since up to $25,000 of gains would be tax exempt.

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

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