

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 750 (Senator Hoffman, *et al.*)

Budget and Taxation

Income Tax Reduction

This bill increases the scheduled income tax reduction for tax years 1998 and 1999. The top income tax rate is reduced from 4.95% to 4.875% for tax year 1998 and from 4.9% to 4.85% for tax year 1999. The personal exemption is increased from \$1,400 to \$1,750 for tax year 1998 and from \$1,600 to \$1,850 for tax year 1999. The two-income subtraction is adjusted to account for the changes in the top rate.

The Spending Affordability Committee is to include a recommendation in its final report of the 1999 interim as to the fiscal prudence of further accelerating the income tax reduction from the 1997 Tax Reduction Act.

The Governor is required to transfer \$170.7 million from the Revenue Stabilization Account to the general fund for fiscal 1999. For fiscal 2000 through 2003, the Governor is required to include an appropriation to the Revenue Stabilization Account of any unappropriated general fund surplus greater than \$10 million as of the end of fiscal 1998 through 2001, respectively.

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

Fiscal Summary

State Effect: General fund revenues would decline by an estimated \$170.7 million in FY 1999 and \$45.3 million in FY 2000. There is no effect beyond FY 2000. Expenditures of about \$97,300 and \$58,000 would be saved in FY 2000 and 2001, respectively.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	(\$170.7)	(\$45.3)	\$0.0	\$0.0	\$0.0
GF Expenditures	0.0	(0.1)	(0.1)	0.0	0.0
Net Effect	(\$170.7)	(\$45.2)	\$0.1	\$0.0	\$0.0

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

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: Based on 1996 income tax collections and current revenue forecasts, general fund revenues would decline by an estimated \$170.7 million in fiscal 1999 and \$45.3 million in fiscal 2000. In tax year 2000, the top income tax rate and personal exemption will be the same as those under current law. Beyond fiscal 2000, therefore, there will be no revenue effect from this bill.

These changes will result in revenue reductions of 5% in 1998 and 6% in 1999, 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.

State Expenditures: Because the top rate and personal exemption will be identical in tax year 1999 and tax year 2000, expenditures to change the top rate and personal exemption in tax year 2000 will not be made. Estimated costs of \$97,300 for printing and mailing new withholding tables would be saved in fiscal 2000, and computer programming costs of approximately \$58,000 would be saved in fiscal 2001.

Additional Comments: Exhibit 1 shows the savings in 1998 and 1999 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. The total savings for these taxpayers in 1998 and 1999, after accounting for the increase in federal taxes, would be \$52, \$64, \$147, and \$154, respectively.

Exhibit 1				
Examples of Tax Savings				
	<u>Single Individual</u>		<u>Family of Four</u>	
Gross Income	\$25,000	\$60,000	\$40,000	\$100,000
1998 State Savings	31	53	87	127
Federal Tax Increase	0	15	0	36
Net Savings	31	38	87	91
1999 State Savings	21	36	60	87
Federal Tax Increase	0	10	0	24
Net Savings	21	26	60	63

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

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