

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 385 (Delegate Schade)

Ways and Means

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**Income Tax - Distributions from Qualified Retirement Plans  
for Reinvestment in Small Business**

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This bill creates a subtraction modification for the individual income tax for the amount of a distribution from a qualified retirement plan which is invested in a “small business” in Maryland.

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

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**Fiscal Summary**

**State Effect:** Indeterminate general fund revenue decrease beginning in FY 1999. No effect on expenditures.

**Local Effect:** Indeterminate revenue decrease. No effect on expenditures.

**Small Business Effect:** Potential meaningful.

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**Fiscal Analysis**

**State Revenues:** General fund revenues would decline an indeterminate amount. The amount of funds from retirement plan distributions which would be invested in small businesses in the State cannot be reliably determined at this time. The loss would be 4.95% of the subtractions taken in 1998, declining to 4.75% of subtractions taken in 2002.

As a point of information, distributions from taxable Individual Retirement Accounts totaled \$745.5 million in tax year 1995. Each 1% of this amount invested in a small business would result in a general fund revenue loss of approximately \$346,000 in fiscal 1999. Distributions from qualified tax exempt trusts and annuities would also be eligible for the subtraction. Data on total distributions from these sources do not exist.

**Local Revenues:** Local revenues would decline by an average of 55% of any State revenue loss.

**Small Business Effect:** This bill provides an incentive for individuals receiving a distribution from a qualified retirement plan to invest in small businesses. This could result in increased investment in small businesses, although the Department of Legislative Services notes that these investments generally have neither the safety nor reliable income of other investment alternatives preferred by most retired individuals. Thus, this bill may not lead to substantial increases in capital available to small business.

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

**Fiscal Note History:** First Reader - February 19, 1998

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Analysis by: David F. Roose

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710