

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 1176 (Delegate Harkins)

Ways and Means

Income Tax - Interest and Dividend Income

This bill creates a subtraction modification for the individual income tax for the first \$1,000 of interest or dividend income received during a tax year.

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 could decline by a maximum \$104.1 million in FY 1999. Out-year estimates reflect increasing subtractions and declining top income tax rates. Expenditures would increase by an estimated \$49,000.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	(\$104.1)	(\$104.1)	(\$104.1)	(\$104.0)	(\$104.0)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$104.1)	(\$104.1)	(\$104.1)	(\$104.0)	(\$104.0)

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

Local Effect: Local revenues would decline by an estimated \$57.8 million in FY 1999. Expenditures would not be affected.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: General fund revenues would decline by an estimated \$104.1 million beginning in fiscal 1999. Assuming that both spouses filing jointly may take the subtraction, the estimated \$2 million taxpayers with interest and dividend income would have average interest and dividend income of \$5,100. Since the lowest average of such income by income class is \$2,772 for those with Maryland adjusted gross income of \$40,000 to \$50,000, it is assumed that all taxpayers would take the maximum \$1,000 subtraction (or \$2,000 for joint filers). At the 4.95% top rate for 1998, each \$1,000 subtraction would result in a revenue loss of \$49.50; the total revenue loss would be \$104.1 million for tax year 1998, realized in fiscal 1999 when 1998 tax returns are filed.

This estimate represents the maximum possible revenue loss. The actual loss would be less, to the extent that not all taxpayers with interest and dividend income could claim the full \$1,000 subtraction. This number of taxpayers cannot be reliably estimated.

State Expenditures: The Office of the Comptroller would incur \$49,000 of computer programming costs to add a new subtraction to the income tax form. The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized, since there will be changes to the income tax processing system due to the 1997 income tax reduction which is phased in through 2002.

Local Revenues: Local revenues would decline by about 55% of any State revenue loss through the local income tax. In fiscal 1999, the maximum revenue loss is estimated at \$57.8 million.

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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