

Department of Legislative Services
Maryland General Assembly**FISCAL NOTE**Senate Bill 628 (Senator Haines, *et al.*)Budget and Taxation**Income Tax Reduction**

This bill accelerates the income tax reduction enacted in 1997. The reduction will be fully phased in by tax year 2000, rather than tax year 2002. The top income tax rate is reduced from 4.95% to 4.925% for tax year 1998; from 4.9% to 4.85% for tax year 1999; from 4.85% to 4.75% for tax year 2000; and from 4.8% to 4.75% in tax year 2001. The personal exemption is increased from \$1,400 to \$1,500 for tax year 1998; from \$1,600 to \$1,850 for tax year 1999; from \$1,850 to \$2,400 for tax year 2000; and from \$2,100 to \$2,400 in tax year 2001. The two-income subtraction is adjusted to account for the changes in the top rate.

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 \$82.5 million in FY 1999. Out-year estimates reflect full implementation of this bill; in FY 2003 and beyond, there is no revenue loss. Expenditures of \$97,300 would be saved in FY 2001.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	(\$82.5)	(\$137.5)	(\$145.1)	(\$51.2)	\$0.0
GF Expenditures	0.0	0.0	(0.1)	(0.2)	(0.1)
Net Effect	(\$82.5)	(\$137.5)	(\$145.0)	(\$51.0)	\$0.1

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 \$82.5 million in fiscal 1999; \$137.5 million in fiscal 2000; \$145.1 million in fiscal 2001; and \$51.2 million in fiscal 2002. In tax year 2002, the top income tax rate and personal exemption will be the same as those under current law. Beyond fiscal 2002, therefore, there will be no revenue effect from this bill.

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 10% income tax reduction will be phased in two years faster than under current law, expenditures to change the top rate and personal exemption in tax years 2001 and 2002 will not be made. Costs of \$97,300 for printing and mailing new withholding tables would be saved in fiscal 2001 and 2002, and computer programming costs of approximately \$58,000 would be saved in fiscal 2002 and 2003.

Additional Comments: **Exhibit 1** shows the savings in 1998 and 2000 (when the bill will be fully implemented) 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. Taxpayers would realize tax savings each year through 2001. The total savings for these taxpayers, after accounting for the increase in federal taxes, would be \$98, \$118, \$281, and \$289, respectively.

Exhibit 1
Examples of Tax Savings

Gross Income	<u>Single Individual</u>		<u>Family of Four</u>	
	\$25,000	\$60,000	\$40,000	\$100,000
1998 State Savings	10	17	26	39
Federal Tax Increase	0	5	0	11
Net Savings	10	12	26	28
2000 State Savings	44	73	127	181
Federal Tax Increase	0	20	0	51
Net Savings	44	53	127	130

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

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