HB 641

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 641 (Delegates Barve and Hurson)
Ways and Means

Income Tax - Subtraction Modification for High Technology Venture Capital Investment Rollover

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This bill creates an income tax subtraction modification for an individual who realizes a gain from the sale or exchange of ownership interest in a "high technology business enterprise" through a "venture capital investment" and reinvests the gains in another venture capital investment in a high technology business enterprise during the same taxable year. The subtraction is equal to the amount of the gain that is reinvested during the taxable year.

The bill takes effect July 1, 1999 and applies to all taxable years beginning December 31, 1998.

Fiscal Summary

State Effect: Indeterminate but potentially significant decrease in general fund revenues. No effect on expenditures.

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

State Effect: General fund revenues would decline by an indeterminate but potentially significant amount beginning in fiscal 2000. The extent of the decrease will depend on the number of taxpayers who engage in venture capital investment in high technology enterprises, the amount of the gains for the transfer of ownership of a high technology business enterprise, and the extent to which the proceeds are reinvested in other venture capital investments. According to a 1997 survey by Price Waterhouse, a total of $22.1 million in venture capital investments were made in Maryland high technology firms in 1997 and $12.8 billion in investments in almost 2,700 companies located throughout the United States. Under the bill, the subtraction would be allowed for Maryland taxpayers for venture capital investments anywhere in the United States.

For illustrative purposes, a $5 million subtraction allowed under this bill will reduce State revenues in fiscal 2000 by $242,500, while a $50 million subtraction will reduce State revenues by $2.4 million.

The Office of the Comptroller would incur one-time computer programming costs of $50,500 to add the subtraction to the personal income tax returns. 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.

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

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