

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE

Senate Bill 562 (Senator Hogan. *et al.*)

Budget and Taxation

**Income Tax Reduction**

This bill accelerates the scheduled income tax reduction by fully phasing-in the tax cut in tax year 2000 instead of 2002. The top income tax rate is reduced from 4.85% to 4.8% for tax year 1999, 4.85% to 4.75% for tax year 2000, and 4.8% to 4.75% for tax year 2001. The personal exemption is increased from \$1,850 to \$2,100 for tax year 1999, increasing to the full phase-in amount of \$2,400 beginning in tax year 2000. The two-income subtraction is adjusted to account for the changes in the top rate.

The bill is effective July 1, 1999 and applies to all taxable years beginning after December 31, 1998.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by an estimated \$175.7 million in FY 2000. Future year estimates reflect accelerated tax cuts. Expenditures would not be affected.

| (in millions)   | FY 2000   | FY 2001   | FY 2002  | FY 2003 | FY 2004 |
|-----------------|-----------|-----------|----------|---------|---------|
| GF Revenues     | (\$175.7) | (\$141.0) | (\$49.5) | \$0.0   | \$0.0   |
| GF Expenditures | 0         | 0         | 0        | 0       | 0       |
| Net Effect      | (\$175.7) | (\$141.0) | (\$49.5) | \$0.0   | \$0.0   |

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None. Local jurisdictions are held harmless from the income tax reduction.

**Small Business Effect:** Minimal.

**Fiscal Analysis**

**State Revenues:** Based on the income tax simulation model, general fund revenues could decrease by \$84.2 million in tax year 1999. Although the tax reduction is allowed for tax year 1999, it is assumed that most taxpayers would not adjust their withholdings to reflect the tax reduction until after July 1, 1999. Consequently, general fund revenues are estimated to

decrease by \$175.7 million in fiscal 2000, reflecting one and one-half tax years. Revenues are expected to decrease by \$141 million in fiscal 2001 and \$49.5 million in fiscal 2002. Because the tax reduction under current law (Chapter 4 of 1997 and Chapter 4 of 1998) will be fully phased-in by tax year 2002, there is no impact beyond fiscal 2002.

This bill will result in revenue reductions of 8% in 1999 and 10% in 2000, when compared to tax law prior to the 1997 Tax Reduction Act (a \$1,200 personal exemption and a 5% top rate).

**Additional Comments: Exhibit 1** shows the savings in tax years 1999, 2000, and 2001 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 exhibit 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 28% will be paid in higher federal income taxes by those who itemize.

| <b>Exhibit 1</b>               |                          |                 |                       |                  |
|--------------------------------|--------------------------|-----------------|-----------------------|------------------|
| <b>Examples of Tax Savings</b> |                          |                 |                       |                  |
|                                | <u>Single Individual</u> |                 | <u>Family of Four</u> |                  |
|                                | <u>\$25,000</u>          | <u>\$60,000</u> | <u>\$40,000</u>       | <u>\$100,000</u> |
| Gross Income                   |                          |                 |                       |                  |
| 1999 State Savings             | 21                       | 36              | 59                    | 86               |
| Federal Tax Savings            | 0                        | 10              | 0                     | 24               |
| Net Savings                    | 21                       | 26              | 59                    | 62               |
| 2000 State Savings             | 44                       | 73              | 127                   | 181              |
| Federal Tax Savings            | 0                        | 20              | 0                     | 51               |
| Net Savings                    | 44                       | 53              | 127                   | 130              |
| 2001 State Savings             | 23                       | 38              | 68                    | 95               |
| Federal Tax Increase           | 0                        | 11              | 0                     | 27               |
| Net Savings                    | 23                       | 27              | 68                    | 68               |

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

**Fiscal Note History:**

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