Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 6 (Senator Haines)
Budget and Taxation

Income Tax - Capital Gains

This bill creates a subtraction modification of 50% of the first $50,000 of any net capital gains for both individual and corporate income taxes. The amount of the modification is reduced, but not below zero, by any part of net capital gains excluded from federal adjusted gross income for federal income tax purposes. Tax preference items must be modified by adding the amount of the subtraction allowed by this bill.

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

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $93.8 million in FY 2000 and $66.7 million in FY 2001. Special fund revenues could decline by $371,000 in FY 2000. The revenue loss in FY 2000 contains one and one-half years of personal income tax loss due to the effective date of this bill. Expenditures would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($93.8)	($66.7)	($69.9)	($73.6)	($77.9)
SF Revenues	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($94.2)	($67.0)	($70.2)	($74.0)	($78.3)

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

Local Effect: Local revenues could decline by an estimated $28.8 million in FY 2000. Expenditures would not be affected.

Small Business Effect: Potential meaningful effect.

Fiscal Analysis

State Revenues: Based on Maryland statistics of income data, allowing this capital gains subtraction could reduce individual income tax revenues by $92.7 million in fiscal 2000, and $65.7 million in fiscal 2001. The fiscal 2000 loss includes one and one-half years of the effect of this bill, because subtractions taken in all of tax year 1999 and half of 2000 will be accounted for in fiscal 2000.

Assuming that all corporations with net capital gains will have at least $50,000 of net capital gains, the total capital gains subtraction from corporate income would be $17.4 million in tax year 1999. The revenue loss at the 7% corporate income tax rate would be $1.22 million. For the first tax year, 95% of this loss will be realized in the second fiscal year (fiscal 2000) and 5% in the third fiscal year (fiscal 2001). In succeeding years, 25% of the loss will be realized in the first fiscal year, 70% in the second, and 5% in the third. Consequently, the fiscal 2000 revenue loss would be $1.48 million and the fiscal 2001 loss would be $1.31 million. Out-year losses grow by 5.85%.

About 25% of corporate income tax revenues are distributed to the Transportation Trust Fund (TTF); the remainder is credited to the general fund. The general fund would therefore lose $1.11 million in fiscal 2000 and the TTF would lose $370,791. In fiscal 2001, the general fund loss would be $980,900 and the TTF loss would be $326,963. Future year revenue losses increase by 5.85% for both the general fund and the TTF.

Combining the personal and corporate income tax revenue loss, the general fund would lose approximately $93.8 million in fiscal 2000 and $66.7 million in fiscal 2001. TTF revenues would decline by $370,791 and $326,963, respectively.

State Expenditures: The Office of the Comptroller advises that form and instruction changes will cost $1,100. The Department of Legislative Services advises that since forms and instructions are updated annually, the costs for form changes resulting from this bill can be absorbed within existing resources.

Local Revenues: Local governments will lose piggyback revenues of about $28.7 million in fiscal 2000 and $20.6 million in fiscal 2001. Local governments will also lose about $111,240 in fiscal 2000 and $98,090 in fiscal 2001 from the TTF distribution to local governments.

Small Business Effect: Those small businesses with capital gains, including gains from investments and real property, would realize greater after-tax returns since up to $25,000 of gains would be tax exempt.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Legislative Services

Fiscal Note History: First Reader - January 19, 1999
emg/jr

Analysis by: Lina Walker

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510