

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1002 (Delegate Bartlett, *et al.*)
Ways and Means

Technology-Based Farm Equipment - Income Tax Subtraction Modification

This bill allows a subtraction modification under the individual and corporate income tax for 100% of the expenses incurred to purchase and install specified "technology-based farm equipment." The bill requires a taxpayer to file with the taxpayer's income tax return a certification from the Department of Agriculture to qualify for the subtraction. Any unused portion of the subtraction not used during the taxable year may be carried forward for up to five taxable years under specified circumstances.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: The amount of any decrease in general fund and Transportation Trust Fund (TTF) revenues depends on the number of persons taking the subtraction and the amount of each taken. For illustrative purposes only, for every \$10,000 subtracted on personal income tax returns, general fund revenue would decrease by \$485. For every \$10,000 subtracted on corporate income tax returns, general funds would decrease by \$525 and TTF revenues would decrease by \$123.

Local Effect: Local revenues would decline by approximately 2.67% of the total subtraction taken, or 55% of the State loss for farm technology. In addition, local government revenues would decline as a result of corporate returns claiming the subtraction proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Potential meaningful. Small businesses that purchase qualifying

equipment will be entitled to expense or depreciate the property for federal income tax purposes, and thereby reducing Maryland taxable income since any reduction in federal taxable income flows through to Maryland taxable income. In addition, they will be able to subtract 100% of the cost for Maryland tax purposes.

Analysis

Current Law: No subtraction modification of this type exists.

State Fiscal Effect: The actual costs of this bill cannot be reliably estimated because it is not known how many individuals or corporations would take the subtraction provided by the bill. In addition, the amount of any subtractions taken could vary significantly. For example, according to the Maryland Grain Producers, a complete Global Positioning System (GPS) would cost approximately \$10,000. Other associated equipment would cost an additional \$5,000. Complete personal computer systems cost approximately \$2,000.

Subtractions taken on personal income tax returns result in a reduction of general fund revenues of approximately 4.85% of the subtraction taken. Seventy-five percent of the subtraction taken on corporate income tax returns results in a general fund reduction and the remaining 25% results in a reduction in TTF revenues because of the distribution of corporate income tax revenue to the TTF. The number of subtractions expected to be claimed on personal or corporate income tax returns cannot be reliably estimated at this time.

Currently, very few persons in Maryland are using the technology eligible for the subtraction modification provided by the bill.

Local Fiscal Effect: Local revenues would decline by approximately 2.67% of the total subtraction taken, or 55% of the State loss for farm technology. In addition, local government revenues would decline as a result of corporate returns claiming the subtraction proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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jir/jr

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