

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE
 Revised

House Bill 1054 (Delegate Hixson. *et al.*)
 Ways and Means

Individual Income Tax - Credit for Filing an Electronic Return

This bill allows an individual to claim a \$5 credit against the State income tax if the individual files an “electronic tax return” for the taxable year as allowed by the Comptroller.

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

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$2.5 million in FY 2001. Future year estimates assume a 30% increase in electronic income tax filings. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$2.5)	(\$3.4)	(\$4.3)	(\$5.6)	(\$7.2)
GF Expenditures	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Effect	(\$2.5)	(\$3.4)	(\$4.3)	(\$5.6)	(\$7.2)

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

Local Effect: None. The credit is claimed against the State income tax.

Small Business Effect: Potential meaningful. To the extent that the bill increases the demand for electronic income filing, professional tax preparers could realize additional revenue through increased demand. In addition, small businesses that sell tax software could realize additional revenue through increased sales.

Analysis

Current Law: No credit of this type exists.

State Fiscal Effect: According to the Revenue Administration Division (RAD) of the Comptroller's Office, 300,352 income tax returns were filed electronically through a professional tax preparer or with a personal computer (PC) through an on-line e-file provider for tax year 1998. Tax year 1998 was the first year that PC filing was allowed. RAD reports that electronic filing through a professional tax preparer has increased, on average, 30% annually from 1994 through 1998. Assuming both types of electronic filings increase by 30% per year, general fund revenue would decrease by approximately \$2.5 million in fiscal 2001. The following chart illustrates the revenue loss in tax years 2000 through 2005.

<u>Tax Year</u>	<u>Number of Returns</u>	<u>Total Cost</u>
2000	507,595	\$2,537,974
2001	659,873	\$3,299,367
2002	857,835	\$4,289,177
2003	1,115,186	\$5,575,930
2004	1,449,742	\$7,248,709

Revenue losses will occur in the fiscal year following the tax year when the credits are claimed.

To the extent that electronic filings increase by more or less than 30%, general fund revenues would decrease accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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 drg/jr Revised - House Third Reader - March 21, 2000

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