Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 56 (Chairman, Budget and Taxation Committee)
(Departmental - Assessments and Taxation)
Budget and Taxation

Financial Institutions - Taxation

This departmental bill: (1) repeals the 7% financial institution franchise tax and replaces it with the 7% corporate income tax; (2) repeals the savings and loan association franchise tax; and (3) repeals the tax exemption on the majority of personal property owned by savings and loans (S&Ls). The bill also: (1) authorizes the Department of Assessments and Taxation to retain full authority to audit, administer, and enforce the financial institution franchise tax for taxable years beginning before January 1, 2001; and (2) authorizes the Comptroller to retain full authority to audit, administer, and enforce the savings and loan association franchise tax for taxable years beginning before January 1, 2001.

Fiscal Summary

State Effect: Net general fund revenue decrease of approximately $534,000 in FY 2001. The decrease grows to $3.4 million in FY 2002, reflecting full-year collections and the repeal of the savings and loan association franchise tax. Net special fund (Transportation Trust Fund) revenue increase of approximately $374,000 in FY 2001. The increase grows to $1.5 million in FY 2002, reflecting full-year collections. Expenditures would not be affected.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	($534,000)	($3,411,000)	($3,471,000)	($3,433,000)	($3,496,000)
SF Revenues	$374,000	$1,500,000	$1,500,000	$1,500,000	$1,600,000
GF Expenditures	$0	$0	$0	$0	$0
Net Effect	($160,000)	($1,911,000)	($1,971,000)	($1,933,000)	($1,896,000)

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

Local Effect: The total local government distribution from the Transportation Trust Fund (TTF) would increase by approximately $160,000 in FY 2001; $600,000 in FY 2002; and $700,000 in FY 2003-2005. Local government property tax collections will increase by approximately $800,000 beginning in FY 2002.

Small Business Effect: The Department of Assessments and Taxation has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: Specified financial institutions are subject to the financial institution franchise tax, which is 7% of net income. The franchise tax includes income on government obligations that are otherwise exempt from State taxation. The companies also have an exemption from the local property tax for specified property.

Background: The State financial institution franchise tax was enacted in 1968 as a means of effectively taxing the net income of banks and finance companies, particularly the income from government bonds. Savings and loan associations became subject to the tax in 1983. This tax is paid instead of the State corporate income tax. Both taxes are 7% of net income. However, the franchise tax includes income on government obligations that are otherwise exempt from State taxation. Legislation enacted in 1995 subjected commercial banks, savings banks, and select other companies to the corporate income tax, rather than the franchise tax, beginning January 1, 1998. For these companies the exemption from local personal property taxes on specified property was eliminated.

As of January 1, 1998, only savings and loan associations; mortgage, loan, and credit companies; and certain other entities are still subject to the franchise tax and continue to be exempt from personal property taxes. These businesses do not have significant income from government obligations as they tend to use other investment vehicles in order to receive a higher return on their investments. In fiscal 1998, there were 113 savings and loan associations that paid the financial institution franchise tax. Also, these entities pay the savings and loan association franchise tax, which is a tax assessed on the total withdrawal value of deposits that a savings and loan holds at the end of each calendar year.

State Fiscal Effect: There are approximately 340 financial institutions subject to the 7% financial institution franchise tax. According to information provided by both the State Department of Assessments and Taxation (SDAT) and the Bureau of Revenue Estimates (BRE), approximately $7.9 million was collected from the financial institution franchise tax in fiscal 1999 and approximately $8.4 million is expected to be collected in both fiscal 2000 and 2001. Under current law, all money collected from the financial institution franchise tax is general fund revenue. As a result of the bill, all financial institutions will be subject to the 7% corporate income tax. Approximately 25% of corporate income tax revenues, however, go to the TTF, meaning that net general fund revenues would decrease by approximately 25%

of the revenue currently collected from the franchise tax. In fiscal 2001 this will result in a net general fund revenue loss of approximately $534,000.

Beginning in fiscal 2002, general fund revenues would decrease by approximately $2.1 million per year which reflects the distribution to the TTF from the corporate income tax (approximately $600,000 will be allocated to local governments).

Since 1998, banks have paid the corporate income tax and the majority of personal property taxes. Under the bill, the S&Ls will now be in the same posture for tax purposes as the banks. The remaining financial institutions, most of which are nondepository institutions such as mortgage, credit, and loan companies, will retain their personal property tax exemption. The repeal of Savings and Loan Association Franchise Tax will reduce general fund revenues by approximately $1.3 million beginning in fiscal 2002.

As result of the repeal of both the financial institution franchise tax and the savings and loan association franchise tax, net general fund revenues would decrease by approximately $1.2 million in fiscal 2001 and approximately $3.4 million annually thereafter.

Thirty percent of the TTF revenue from the corporate income tax is distributed to the subdivisions. After distribution to the subdivisions from the TTF, there is a net special fund increase of $374,000 in fiscal 2001 and approximately $1.5 million annually thereafter.

In addition, general fund revenues could also decrease to the extent the entities subject to the corporate income tax have income from U.S. obligations included in the federal taxable income for a given year, as this income can be subtracted when calculating Maryland taxable income. However, SDAT and the BRE advise that income from U.S. obligations for these entities is assumed to be minimal.

The BRE advises that processing the additional 340 corporate tax returns could be handled with existing budgeted resources.

Local Fiscal Effect: Approximately 25% of corporate income tax revenues go to the TTF. Thirty percent of the TTF revenue from the corporate income tax is distributed to the subdivisions. As a result of this distribution to the subdivisions from the TTF, there is a net local revenue increase of $600,000 in fiscal 2001. In addition, the personal property tax repeal will increase local revenues by about $800,000 in fiscal 2002.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History:	First Reader - January 20, 2000
mld/jr	Revised - Senate Third Reader - March 31, 2000
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