HB 1118

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1118 (Delegates Rudolph and James)
Ways and Means

Income Tax - Gain Recognized on Sale of Preservation or Conservation Easements - Subtraction Modification

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This bill provides a subtraction modification under the Maryland individual income tax for any gain recognized on the sale or other disposition of an easement or other interest in agricultural land to the Rural Legacy Program, the Maryland Environmental Trust (MET), the Maryland Agricultural Land Preservation Foundation (MALPF), an agricultural land preservation program or transferable development rights program established by a county, or the State or local governing body under Program Open Space (POS).

The bill takes effect July 1, 2002, and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: Potential significant general fund revenue decrease. The extent of any revenue decrease depends on the gain realized from the sale of land to land preservation programs and the amount of land sold.

Local Effect: Local government revenues would decrease by approximately 2.8% of the total State subtraction.

Small Business Effect: Minimal.

Analysis

Current Law: No subtraction modification exists for any gain recognized on the sale or disposition of land to land preservation programs.

State Fiscal Effect: The extent of any revenue decrease depends on the gain realized from the sale of land to land preservation programs and the amount of land sold and cannot be reliably estimated at this time. However, the revenue loss could be significant.

The State property transfer tax is used to fund various State and local land preservation programs. **Exhibit 1** sets forth land acquisition program distributions based on projected property transfer tax revenues, under current law.

Exhibit 1
Fiscal 2003
Current Law Transfer Tax Distribution

Program	**Amount (millions)**
Program Open Space	$60.625
MALPF	18.032
Rural Legacy	13.288
Total	**$91.950**

However, the fiscal 2003 distribution is subject to adjustment under the proposed Budget Reconciliation Act (SB 323/HB 424).

If it is assumed that all of these funds are used to purchase easements in fiscal 2003 and that the original purchase prices represent 50% of total sales, then a net gain of approximately $45.9 million would be reported and therefore would be eligible to be subtracted. As a result, general fund revenues would decrease by approximately $2.2 million in fiscal 2003.

Revenues would also decrease as a result of easements being sold to local agricultural land preservation programs or transferable development rights programs. The number of easements and the sale prices of these easements are not known at this time.

Local Fiscal Effect: Local government revenues would decrease by approximately 2.8% of the total State subtraction in fiscal 2003.

Additional Comments: To the extent the gain from the sale of an easement is deducted on a taxpayer's federal income tax return, this deduction will flow through to the Maryland income tax return.

Additional Information

Prior Introductions: This bill was introduced as HB 646 in the 2001 session. It received an unfavorable report from the House Ways and Means Committee. A similar bill was introduced as HB 661 in the 2000 session. It was referred to interim study by the Senate Budget and Taxation Committee.

Cross File: None.

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

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