

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE

House Bill 511 (Delegate Bates, *et al.*)  
Ways and Means

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**Income Tax - Automatic Decoupling from Federal Amendments - Repeal**

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This bill repeals the provision that the State automatically decouples from any federal tax change that the Comptroller determines will impact State revenues by at least \$5 million in the fiscal year that begins during the calendar year in which the federal tax change was enacted.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

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**Fiscal Summary**

**State Effect:** Corporate and personal income tax revenues could increase or decrease by at least \$5 million in a fiscal year depending on whether a federal tax act increases or decreases Maryland taxable income.

**Local Effect:** Local revenues could increase or decrease substantially depending on whether a federal tax act increases or decreases local income tax revenues or local highway user revenues distributed from the Transportation Trust Fund (TTF).

**Small Business Effect:** Potential meaningful.

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**Analysis**

**Current Law:** Within 60 days after an amendment of the Internal Revenue Code (IRC) is enacted, the Comptroller must submit a report to the Governor and the General Assembly that outlines the changes in the IRC, the impact on State revenues, and how different types of taxpayers will be affected. If the Comptroller determines that the federal tax change will impact State revenues by at least \$5 million (positive or negative)

in the applicable fiscal year, the federal tax change does not apply for Maryland income tax purposes for any taxable year that begins in the calendar year in which the federal tax change is enacted.

**Background:** The Budget Reconciliation and Financing Act of 2002 (Chapter 440) established the automatic one-year decoupling provision. The provision was enacted in response to bonus depreciation and net operating loss changes enacted by the federal Job Creation and Worker Assistance Act of 2002.

For tax year 2003, the State automatically decoupled from changes enacted by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) that increased Section 179 expensing after the Comptroller determined that State revenues would decrease by at least \$5 million.

**State Revenues:** The impact of the bill depends on the tax policies adopted by the federal government and cannot be reliably estimated.

Pursuant to this legislation, if a federal tax act decreases State revenues by at least \$5 million in the applicable tax year, State revenues would decline by at least \$5 million in a fiscal year following the tax year in which the change takes place. If a federal act increases State revenues by at least \$5 million in the applicable tax year, State revenues would increase by at least \$5 million in a fiscal year following the tax year in which the change takes place.

In addition, decoupling from federal tax acts can impact future year tax revenues as well. The State's automatic decoupling from Section 179 expensing enacted by JGTRRA increased revenues in fiscal 2004, but decreased tax revenues in future years.

**Small Business Impact:** Small businesses could be positively or negatively impacted by the bill. Under current law, the State decouples from any federal tax act that impacts State revenues by at least \$5 million in the next tax year. Small business impacts of federal tax changes, whether positive or negative, do not flow through to the State income tax. Under HB 511, these small business impacts would flow through to the State income tax. **Exhibit 1** details how small businesses would be affected under current law and HB 511 by federal tax changes that have small business impacts.

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**Exhibit 1**  
**Small Business Impacts Under**  
**Current Law and HB 511**

<u><b>Impact of Federal Tax Change</b></u>	<u><b>Small Business Impact</b></u>	
	<u><b>Current Law</b></u>	<u><b>HB 511</b></u>
Increases small business tax burden	Positive	Negative
Decreases small business tax burden	Negative	Positive

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

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