

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 643 (Delegate Simmons)
 Ways and Means

Income Tax - Itemized Deductions - Treatment of Gambling Losses

This bill decouples the State from the deduction allowed for gambling losses under Section 165(D) of the Internal Revenue Code (IRC). Individuals who claim the deduction for federal purposes are required to reduce the amount of itemized deductions claimed for State purposes by the amount of gambling losses deducted.

The bill takes effect July 1, 2006 and applies to tax year 2006 and beyond.

Fiscal Summary

State Effect: General fund revenues could increase by approximately \$3.8 million in FY 2007 due to the reduction in gambling deductions. Future year revenues increase by approximately 1% annually thereafter. Expenditures would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	\$3.8	\$3.9	\$3.9	\$3.9	\$4.0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$3.8	\$3.9	\$3.9	\$3.9	\$4.0

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

Local Effect: Local income tax revenues would increase by approximately \$2.4 million in FY 2007 and increase by approximately 1% annually thereafter. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: Section 165 of the IRC provides for a miscellaneous itemized deduction that includes the amount of gambling losses up to the amount of gambling winnings. Gambling winnings must be reported separately as income and losses as an itemized deduction. An individual who does not report any gambling winnings cannot deduct any gambling losses. Individuals claiming the deduction are required to keep an accurate record of losses and winnings that includes (1) the date and type of specific wagers; (2) name and address of gambling establishments in which the wagers were made; (3) the names of other persons present with the individual at the gambling establishment; and (4) amounts won and loss.

Individuals who meet specific requirements can file gambling losses under schedule C as business losses. These deductions are not subject to the limitations of the miscellaneous itemized deduction.

These deductions claimed for federal purposes flow through to State income tax purposes and typically result in a lower State income tax liability.

Background: In tax year 2003, 827,262 taxable federal returns deducted a total of \$10.4 billion in gambling losses. Several states limit or disallow the deduction, either specifically or because the state does not allow itemized deductions. Oregon allows the deduction only up to the amount of gambling winnings that were taxed by the state. Illinois requires individuals to add-back any amount of federal itemized deduction. Revenue officials at these states could not provide an estimate on the amount of revenue generated from disallowing the deduction for state income purposes.

State Revenues: Pursuant to this legislation, individuals who claim the deduction for federal purposes are required to reduce the amount of itemized deductions claimed for State purposes by the amount of wagering losses deducted beginning in tax year 2006. As a result, general fund revenues could increase by approximately \$3.8 million in fiscal 2007. This estimate is based on the following facts and assumptions:

- in tax year 2003, 827,262 taxable federal returns deducted a total of \$10.4 billion in gambling losses;
- Maryland residents claim approximately 0.75% of the total deductions; and
- taxpayers would have sufficient State tax liability to claim the entire amount of the deduction.

Local Revenues: Local income tax revenues would increase by approximately 3% of the decrease in State deductions allowed. Local income tax revenues would increase by approximately \$2.4 million annually in fiscal 2007 and 2008 and by \$2.5 million in fiscal 2009, 2010, and 2011.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/hlb

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