SB 619

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 619 (Senator Jones, *et al.*)
Budget and Taxation

Income Tax - Credit to Offset Increased Sales Tax

This bill creates a refundable income tax credit to offset the State sales and use tax paid by lower-income individuals. The amount of the credit is $100 per exemption claimed for households with federal adjusted gross income (FAGI) at or below federal poverty guidelines and $50 per exemption claimed if the household's FAGI is below 200% of federal poverty guidelines.

The bill takes effect July 1, 2008 and applies to tax year 2009 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by $138.9 million in FY 2010 due to credits being claimed against the personal income tax. Future year revenue losses increase by about 1% annually. General fund expenditures could increase by $34,000 in FY 2009 due to one-time tax form and computer programming expenditures at the Comptroller's Office.

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	$0	($138.9)	($140.3)	($141.7)	($143.1)
GF Expenditure	0	0	0	0	0
Net Effect	($.0)	($138.9)	($140.3)	($141.7)	($143.1)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: No exact State or federal credit exists, although lower-income individuals can qualify for several other State and federal credits as discussed below.

Background: The State income tax has several components designed to provide income tax relief to lower-income individuals, including the State refundable and nonrefundable earned income credits and poverty level credits. In addition, lower-income individuals, like all individuals, can claim personal exemptions and the standard deduction.

In tax year 2005, taxpayers claimed a total of $91.4 million in refundable State earned income credits, $70.3 million in earned income credits, and $2.8 million in poverty level credits. In addition, 352,221 State taxpayers claimed approximately $1.2 billion in federal EIC credits.

The standard deduction decreased State income tax revenues by about $135 million in tax year 2005 – nearly 90% of the returns that claimed the standard deduction had FAGI of less than $50,000. By comparison, the regular personal exemption decreased State income tax revenues by about $512 million in tax year 2005, of which about one-half was claimed by taxpayers with FAGI of less than $50,000.

Chapters 3 and 6 of the 2007 special session enacted several substantial changes to the State's tax structure. One of these changes was an increase in the State sales tax from 5% to 6%. Legislative Services estimated that increasing the sales tax would increase the average sales tax paid by a household of 4 by $190. The increase on lower-income households will be substantially less than this amount.

Individuals can itemize for federal income tax purposes either the amount of State income or State and local general sales taxes paid. In tax year 2005, over 50,000 Maryland tax returns deducted for federal tax purposes a total of $52.5 million in State sales taxes paid. About 44,000 of these returns had FAGI less than $50,000.

Exhibit 1 lists the income associated with 100% and 200% of federal poverty limits for 2008.

Exhibit 1
Qualifying Income Threshold – 100% and 200% of FPL
Calendar Year 2008

Family Size	100%	200%
1	$10,400	$20,800
2	14,000	28,000
3	17,600	35,200
4	21,200	42,400
5	24,800	49,600
6	28,400	56,800
7	32,000	64,000
8	35,600	71,200
9 or more	39,200	78,400

State Revenues: Tax credits could be claimed beginning in tax year 2009. As a result, general fund revenues would decrease by $138.9 million in fiscal 2010. An estimated $86.0 million would be claimed by households with FAGI less than 100% of FPL and $52.9 million by households with FAGI less than 200% of FPL. This estimate is based on the following assumptions using tax returns from tax year 2005:

- 860,000 exemptions at $100 each; and
- 1,058,000 exemptions at $50 each.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $34,000 in fiscal 2009 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: HB 924 (Delegate F. Turner, *et al.*) – Ways and Means.

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

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