SB 160

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 160 (Senator Simonaire, *et al.*)
Budget and Taxation

Triple Tax Relief Act

This bill creates a subtraction modification against the State income tax for the amount of a taxpayer's federal income tax liability in the tax year. The amount of the subtraction modification may not exceed $500 in tax year 2010, $1,500 in tax year 2011, and $3,000 in tax year 2012 and later (twice as much for married couples filing a joint return or an individual filing as a head of household or surviving spouse).

The bill takes effect July 1, 2010, and applies to tax year 2010 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $83.2 million in FY 2011 due to subtraction modifications claimed against the personal income tax. Future year revenues reflect estimated number of eligible taxpayers claiming the credit, increase in the value of the subtraction modification, and the current economic forecast. General fund expenditures increase by $21,300 in FY 2011 for one-time tax form changes and computer programming modifications.

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	($83.2)	($243.1)	($462.4)	($466.1)	($469.5)
GF Expenditure	$.0	$0	$0	$0	$0
Net Effect	($83.2)	($243.1)	($462.4)	($466.1)	($469.5)

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

Local Effect: Local income tax revenues decrease by $52.8 million in FY 2011 and by $296.4 million in FY 2015. Expenditures are not affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill creates a subtraction modification against the State income tax for the amount of a taxpayer's federal income tax liability in the tax year. The amount of the subtraction modification may not exceed $500 in tax year 2010, $1,500 in tax year 2011, and $3,000 in tax year 2012 and later (twice as much for married couples filing a joint return or an individual filing as a head of household or surviving spouse). Federal tax liability is calculated before application of credits for (1) estimated payments; (2) overpayment of any federal tax; (3) certain uses of gasoline and special fuels; (4) taxes imposed by foreign countries and U.S. possessions; and (5) taxes withheld on wages.

Current Law: No similar state subtraction modification exists, although taxpayers can deduct several types of state and local taxes paid for federal income tax purposes as discussed below.

Background: For federal income tax purposes, individuals can deduct (1) state and local income taxes; (2) real estate taxes; (3) personal property taxes; (4) state and local sales taxes; and (4) qualified motor vehicle taxes. The deduction for state and local income taxes includes amounts paid during the year for estimated taxes for the current tax year and taxes paid for any prior tax year. For tax years 2005 through 2009 taxpayers who itemize have the option of deducting state and local sales taxes instead of state and local income taxes. The American Recovery and Reinvestment Act of 2009 established a deduction for state and local sales and excise taxes paid on a qualified new vehicle purchased after February 16, 2009 and before January 1, 2010.

In tax year 2007, the latest year available, a total of 2.9 million Maryland income tax returns had a total federal tax liability, including amounts not included under the bill, of $26.3 billion. These tax returns deducted a total of $10.7 billion in state and local income taxes paid, $4.0 billion in real estate taxes paid, and $52.0 million in sales taxes paid.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2010. It is assumed that, due to the limited impact on tax liabilities, individuals do not adjust withholdings and estimated payments. As a result, fiscal 2011 revenues will decrease by $83.2 million. **Exhibit 1** shows the projected State and local revenue loss from exempting federal tax liabilities. Future year revenues reflect the estimated number of eligible taxpayers, increase in the value of the subtraction modification, and current economic forecast.

Exhibit 1
Projected State and Local Revenue Loss
($ in Millions)

Fiscal	State	Local	Total
2011	$83.2	$52.8	$136.0
2012	243.1	153.8	396.9
2013	462.4	291.8	754.2
2014	466.1	294.2	760.3
2015	469.5	296.4	765.9

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $21,300 in fiscal 2011 to add the subtraction modification 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.

Local Revenues: Local government revenues decrease by 3% of the net change in State tax liability in tax year 2010 resulting from the provisions of the bill. In fiscal 2011, the decrease will total approximately $52.8 million. Exhibit 1 lists the local income tax revenue impact by fiscal year.

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships and file under the personal income tax would be positively impacted through decreased tax liabilities.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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