HB 656

Department of Legislative Services

2013 Session

FISCAL AND POLICY NOTE

House Bill 656 (Delegate Hixson)
Ways and Means

Income Tax - Effects of Internal Revenue Code Amendment

This bill alters the automatic one-year decoupling provision under the State personal and corporate income tax by specifying that the provision applies only to amendments of the Internal Revenue Code (IRC) that reduce State revenues.

The bill takes effect July 1, 2013, and applies to tax year 2013 and beyond.

Fiscal Summary

State Effect: To the extent that future federal legislation is enacted that is impacted by the bill, State revenues will increase in the future. General fund expenditures may decrease minimally due to the elimination of costs at the Comptroller's Office.

Local Effect: Local income tax revenues and local highway user revenues may increase. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The State automatically decouples from an amendment of the IRC for the taxable year that begins in the calendar year in which the amendment is enacted, if the amendment (1) affects the determination of federal adjusted gross income or federal taxable income and (2) is determined by the Comptroller to impact State revenues by at least $5 million for the fiscal year that begins during the calendar year in which the amendment is enacted.

Background: The Budget Reconciliation and Financing Act of 2002 (BRFA) (Chapter 440, SB 323) included a general one-year "decoupling" provision. Within 60 days after an amendment of IRC is enacted, the Comptroller must submit a report to the Governor and the General Assembly that outlines the changes in 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 fiscal year that begins during the calendar year in which the federal tax change was enacted, 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. Otherwise, the federal tax change applies for Maryland income tax purposes in that tax year. After this first tax year, amendments to IRC apply for Maryland income tax purposes unless otherwise explicitly provided by law.

Exhibit 1 shows the federal tax benefits that the State has decoupled from or conformed to since the 2002 session and whether the benefit was primarily for businesses or individuals. The American Recovery and Reinvestment Act (ARRA) of 2009 contained several business and individual tax incentives designed to reduce the impact of the recession and spur economic growth. Of the provisions with an estimated fiscal impact of at least $5 million, the State had previously decoupled from extended net operating losses, Section 179 expensing, and bonus depreciation. The 2009 BRFA (Chapter 487, HB 101) permanently decoupled the State from certain deferral of cancellation of debt income provisions in ARRA but suspended the automatic decoupling provision for three temporary tax relief provisions: an expansion of the federal earned income credit; enhanced federal income tax deductibility of motor vehicle excise taxes; and a federal income tax deduction for unemployment insurance payments. As a result, the State explicitly conformed to the three temporary federal tax benefits.

Exhibit 1
State Conformity to Federal Tax Benefits

Tax Benefit	Decoupled	Explicitly Conformed	Federal Legislation Enactment Date(s)
Primarily Business			
Five-year Net Operating Losses	X		2002, 2009
Bonus Depreciation	X		*multiple*
Cancellation of Debt Income	X		2009
Qualified Production Activities Income	X		2004
Section 179	X		*multiple*
SUV Depreciation	X		2003
Primarily Individual			
Temporary Earned Income Credit Increase		X	2009
Deduction for Unemployment Compensation		X	2009
Motor Vehicle Excise Taxes Paid		X	2009
Federal College Tuition Deduction	X		*multiple*

In addition, the American Taxpayer Relief Act of 2012, enacted on January 3, 2013, extended, made permanent, or altered many previously enacted federal tax reductions. Based on the Comptroller's determination, the State will automatically decouple from only one amendment in that legislation – the limitation on itemized deductions for certain higher-income taxpayers under Section 68 of the IRC. The Comptroller estimates that, in the absence of decoupling, State income tax revenues would have decreased by $30.0 million in fiscal 2014.

Small Business Impact: Under current law, the State automatically decouples from IRC amendments that increase or decrease State revenues by at least $5 million. The bill will limit application of the decoupling provision to only provisions that decrease State revenues. As a result, the State will automatically conform to federal legislation that increases revenues. Small businesses will be meaningfully impacted in the first tax year after federal legislation is enacted that increases State revenues through increased State tax liabilities.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mc/jrb

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