

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

House Bill 1233
 Ways and Means

(Delegate Walker, *et al.*)

Budget and Taxation

Tax Amnesty Program

This bill requires the Comptroller to declare an amnesty period for certain delinquent taxpayers from September 1, 2015, through October 30, 2015, for penalties and one-half of any interest due attributable to the nonpayment, nonreporting, or underreporting of income taxes, withholding taxes, sales and use taxes, or admissions and amusement taxes that are paid during the amnesty period. Individuals or corporations who enter into a payment agreement with the Comptroller’s Office can also qualify for the amnesty. The Comptroller must report to the Governor and the General Assembly by March 15, 2016, on the impact of the amnesty program.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: Net general fund revenues increase by \$11.4 million in FY 2016 and \$3.6 million in FY 2017 due to an increase in delinquent personal income and sales and use tax revenue payments. Minimal impact on Transportation Trust Fund (TTF) revenues and Higher Education Investment Fund (HEIF) revenues. Future year estimates reflect revenue losses resulting from the acceleration of revenues that would have otherwise been paid or collected under current law. Expenditures are not affected.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$11.4	\$3.6	(\$).9	(\$).9	(\$).9
Expenditure	0	0	0	0	0
Net Effect	\$11.4	\$3.6	(\$).9	(\$).9	(\$).9

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

Local Effect: Net local revenues will increase by \$3.2 million in FY 2016 and \$0.9 million in FY 2017 and decrease by \$0.2 million annually in FY 2018 through 2020. No effect on expenditures.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill requires the Comptroller to declare an amnesty period for delinquent taxpayers from September 1, 2015 through October 30, 2015, for penalties and one-half of any interest due attributable to the nonpayment, nonreporting, or underreporting of income taxes, withholding taxes, sales and use taxes, or admissions and amusement taxes that are paid during the amnesty period. Taxpayers who enter into a payment agreement with the Comptroller's Office and pay the full amount of the delinquent tax due before January 1, 2017, in accordance with the terms and schedule of the agreement, can qualify for the amnesty. The waiver of one-half of any interest due does not apply to interest accruing after October 30, 2015, for taxpayers that enter into payment agreements and have remaining unpaid balances.

The amnesty program does not apply to any taxpayer that was (1) granted amnesty under a Maryland tax amnesty program held between calendar 1999 and 2014 or (2) eligible for the Delaware Holding Company settlement period established by Chapter 557 of 2004 for tax periods prior to tax year 2003.

The Comptroller's Office is required to report by March 15, 2016, to the Governor and General Assembly on the State and local revenues raised by the amnesty program.

Current Law: None applicable.

Background: The State offered tax amnesty programs in 1987, 2001, and 2009. In the first amnesty, \$33.5 million was collected with \$20 million distributed to the general fund. In the second amnesty, \$39.5 million was collected – the bill authorizing the program required specified distributions, with \$28.5 million distributed to the general fund, \$8.0 million to local governments, \$2.0 million to the Comptroller's Office for advertising costs and additional enforcement efforts, and \$1.0 million to the Maryland Department of Transportation. The 2009 program generated \$38.9 million, of which \$27.6 million was distributed to the general fund. **Exhibit 1** illustrates the revenues generated from the three amnesty periods except for the admissions and amusement tax, of which less than \$100,000 was collected in each amnesty. Although the total amount collected has been relatively constant, after adjusting for inflation, the 2001 amnesty generated one-quarter less than the 1987 amnesty and the 2009 amnesty generated one-fifth less than the 2001 amnesty. About 18,000 taxpayers

participated in the 2001 amnesty and 7,100 taxpayers participated in the 2009 amnesty. The provisions of the bill are similar to the 2009 amnesty but differ from the earlier programs, which did not limit the types of taxpayers that could participate or require the waiver of one-half of any interest due.

Exhibit 1
State Tax Amnesty Collections
(\$ in Millions)

<u>Tax</u>	<u>1987</u>	<u>2001</u>	<u>2009</u>
Individual Income Tax	\$16.9	\$26.7	\$30.9
Corporate Income Tax	9.0	3.8	1.5
Sales and Use Tax	7.5	8.9	6.5
Total Receipts	\$33.5	\$39.5	\$38.9
General Fund	\$20.0	\$28.5	\$27.6

Note: Individual income tax includes State and local income tax.

Source: Office of the Comptroller

Recent State Tax Compliance Initiatives

Pursuant to legislation passed by the General Assembly, the Comptroller's Office has implemented a variety of tax compliance programs. These programs include (1) tax clearance requirements for vehicle registration and driver's license renewals; (2) an income tax refund intercept program including reciprocal agreements with the Internal Revenue Service and other states; (3) tax clearance requirements for virtually all business licenses; (4) a federal vendor offset program; (5) direct salary attachment for all taxes; (6) new or enhanced withholding from direct payments including gambling winnings, lump-sum distributions, and nonresident realty sales; and (7) limiting withholding exemptions under certain circumstances. In addition, the Comptroller's data warehouse program analyzes internal data as well as limited data from other State agencies to better target audit and collection efforts.

In fiscal 2014, the Comptroller's Office intercepted a total of \$127.6 million in income tax refunds because the individuals had an unpaid State debt, tax liability, or child support. Of the intercepted amount, a little more than one-half or \$69.1 million was for unpaid tax liability. The Comptroller's Office received about \$20.0 million due to the intercepted refunds of individuals who filed tax returns in jurisdictions with a reciprocal agreement with the State. The vehicle registration and tax clearance program generated about \$30.0 million

in fiscal 2014. The Governor’s proposed fiscal 2016 budget includes additional funding to the Comptroller’s Office for increased tax compliance efforts and assumes this funding will generate an additional \$12.0 million in general fund revenues in fiscal 2016.

State Revenues: State revenues will increase significantly in fiscal 2016 and 2017 as a result of the tax amnesty program. Although the amount of total collections cannot be precisely estimated, the Comptroller’s Office estimates that the program will increase general fund revenues by \$18.0 million and local revenues by \$4.5 million in fiscal 2016.

Exhibit 2 shows the fiscal impact of the program based on the Comptroller’s Office estimate and the additional assumptions listed below.

**Exhibit 2
State and Local Fiscal Impact
Fiscal 2016-2020**

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
General Fund	\$11,400,000	\$3,600,000	(\$900,000)	(\$900,000)	(\$900,000)
Local Income	\$3,150,000	\$900,000	(\$225,000)	(\$225,000)	(\$225,000)

This estimate is based on the following facts and assumptions:

- the program allows for installment payment plans if the total unpaid tax liability is paid by January 1, 2017. It is assumed that 75% of the overall amnesty revenue gain will occur in fiscal 2016 and the remaining 25% in fiscal 2017;
- the amnesty program will reduce by 10% the \$12.0 million in general fund revenues assumed in the Governor’s proposed fiscal 2016 budget resulting from additional funding for tax compliance efforts by the Comptroller’s Office; and
- about 25% of the total amount collected under the amnesty would have been otherwise paid or collected under existing tax compliance programs by fiscal 2020.

Exhibit 3 shows in more detail the impact of the program on general fund revenues.

Exhibit 3
Net General Fund Impact
Fiscal 2016-2020
(\$ in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Amnesty Payments	\$13.5	\$4.5	\$0	\$0	\$0
Compliance Revenues	(1.2)	0	0	0	0
Revenues Otherwise Collected	<u>(0.9)</u>	<u>(0.9)</u>	<u>(0.9)</u>	<u>(0.9)</u>	<u>(0.9)</u>
Net Impact	\$11.4	\$3.6	(\$0.9)	(\$0.9)	(\$0.9)

It is expected that the bill will have a minimal net impact on TTF and HEIF revenues.

Local Revenues: The amnesty program will impact local income tax revenues, as shown in Exhibit 2. Net local revenues will increase by \$3.2 million in fiscal 2016 and \$0.9 million in fiscal 2017 and decrease by \$0.2 million annually in fiscal 2018 through 2020. Based on previous amnesty programs, any increase in admissions and amusement tax revenues is expected to be minimal.

Additional Information

Prior Introductions: None.

Cross File: SB 763 (Senator Peters, *et al.*) - Budget and Taxation.

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

Fiscal Note History: First Reader - March 9, 2015
md/jrb

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