Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 495 (Delegate Palakovich Carr)
Ways and Means Budget and Taxation

Income Tax - Internal Revenue Code Amendments - Decoupling

This bill alters the automatic one-year decoupling provision under the State personal and corporate income tax by specifying that the provision applies to amendments of the Internal Revenue Code (IRC) that reduce State revenues in any taxable year that precedes the calendar year in which the amendment is enacted. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: The Comptroller's Office can implement the bill with existing budgeted resources. State revenues are not directly impacted.

Local Effect: Local expenditures are not affected. Local revenues are not directly impacted.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary/Current Law:

Current Law

The Budget Reconciliation and Financing Act of 2002 (Chapter 440) included a general one-year income tax "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 alters taxpayer income and 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.

Bill Provisions

The automatic decoupling provision generally prevents a change to the federal tax code from significantly impacting State revenues until the General Assembly has the opportunity to either accept or reject the change. However, the automatic decoupling does not apply to federal legislation that, in its year of enactment, would alter the computation of taxable income for previous taxable years. The bill specifies that beginning in tax year 2021 the automatic decoupling provision also applies for any taxable year that precedes the calendar year in which the amendment is enacted and the Comptroller's Office determines that the federal tax change will impact State revenues by at least $5 million in the fiscal year preceding the calendar year in which the amendment is enacted.

State/Local Revenues: The bill alters the automatic decoupling provision to also apply to any taxable year that precedes the calendar year in which the federal tax amendment is enacted. The bill may result in additional circumstances in which the State decouples from a federal tax provision that would have significantly increased or decreased State revenues in a fiscal year.

Local revenues may be similarly impacted through a change in local income tax revenues and/or local highway user revenues.

Small Business Effect: Small businesses could be positively or negatively impacted by the bill. The bill may prevent certain small business impacts of federal tax changes, whether positive or negative, from also flowing through for State income tax purposes.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 3, 2021
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