SB 693

Department of Legislative Services

2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 693 (Senators West and Hester)

Budget and Taxation

Income Tax - Expensing of Business Property - Recoupling With Federal Law

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This bill allows certain businesses increased expensing by conforming the State income tax to the maximum aggregate costs of expensing allowed under Section 179 of the Internal Revenue Code (IRC). **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by $27.4 million in FY 2023 due to a decrease in individual and corporate income tax revenues. Transportation Trust Fund (TTF) revenues decrease by $1.2 million and Higher Education Investment Fund revenues decrease by $0.5 million in FY 2023. TTF expenditures decrease by $0.2 million in FY 2023 and decrease by $0.1 million in FY 2027.

($ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	($27.4)	($32.6)	($30.0)	($28.9)	($29.2)
SF Revenue	($1.7)	($1.8)	($1.7)	($1.7)	($1.7)
SF Expenditure	($0.2)	($0.2)	($0.1)	($0.1)	($0.1)
Net Effect	($28.9)	($34.2)	($31.6)	($30.5)	($30.8)

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

Local Effect: Local revenues decrease by $14.0 million in FY 2023 and by $15.2 million in FY 2027. Local expenditures are not affected.

Small Business Effect: Meaningful.

Analysis

Current Law: Except as discussed below, the State is currently decoupled from any increased expensing under Section 179 and additional depreciation amounts under Section 168(k) of IRC. Taxpayers are required to make an adjustment for Maryland income tax purposes to reflect the changes made to the maximum aggregate costs of expensing under Section 179 and additional depreciation under Section 168(k).

The More Jobs for Marylanders Program allows a manufacturer located in the State to claim increased expensing amounts under the State income tax by conforming State law to the maximum aggregate costs of expensing allowed under Section 179 and to claim any bonus depreciation amounts provided under Section 168(k) of IRC. These benefits apply if the property was placed in service on or after January 1, 2019.

State Revenues: **Exhibit 1** shows the fiscal impact of conforming State law to the higher federal allowance for expensing under the Section 179 provision.

Exhibit 1
Projected State Fiscal Impact
($ in Millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
General Fund	($27.4)	($32.6)	($30.0)	($28.9)	($29.2)
HEIF	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
TTF	(1.2)	(1.3)	(1.2)	(1.2)	(1.2)
Total Revenues	**($29.1)**	**($34.4)**	**($31.7)**	**($30.6)**	**($30.9)**
TTF Expenditures	**($0.2)**	**($0.2)**	**($0.1)**	**($0.1)**	**($0.1)**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

Source: Department of Legislative Services

This estimate is based on the Comptroller's estimate of conforming State law for businesses that under current law may not claim the enhanced federal provision.

State Expenditures: A portion of TTF revenues is used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate income tax revenues results in a 13.5% decrease in TTF expenditures to local governments

(9.6% beginning in fiscal 2025). Accordingly, TTF expenditures decrease by $0.2 million in fiscal 2023 and by $0.1 million in fiscal 2027 as shown in Exhibit 1.

Local Revenues: Local revenues decrease by $14.0 million in fiscal 2023 and by $15.2 million in fiscal 2027, as shown in **Exhibit 2.**

Exhibit 2
Projected Local Revenue Impact
($ in Millions)

	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Local Income Tax	($13.8)	($16.9)	($15.7)	($14.9)	($15.1)
Local Highway User Revenues	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Total Revenues	**($14.0)**	**($17.1)**	**($15.8)**	**($15.0)**	**($15.2)**

Source: Department of Legislative Services

Small Business Impact: Small businesses may benefit by allowing federal provisions to flow through to the calculation of Maryland income taxes, which will decrease tax burdens on these businesses in the near term.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 841 (Delegate Qi, *et al.*) - Ways and Means.

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

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