Peter Franchot
Comptroller

April 17, 2008

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21404

Honorable Thomas V. Miller, Jr.
President of the Senate
State House
Annapolis, Maryland 21404

Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404

Dear Governor, President and Speaker:

As required by Tax – General §10-108(b) of the Annotated Code of Maryland, I am submitting this report on the impact of recent changes to the Internal Revenue Code on Maryland tax revenues for four bills the President recently signed into law. No provision in any of these bills will trigger the automatic decoupling required under Tax – General §10-108.

The *Energy Independence and Security Act of 2007* has a single provision that could affect State revenues. The law permits a 7-year amortization period for geological and geophysical expenditures for certain major integrated oil companies. This change will have little or no effect on State revenues since it targets specific industries or taxpayers with a small presence in Maryland.

Under the *Mortgage Forgiveness and Debt Relief Act of 2007,* the amount of any discharge of indebtedness incurred to acquire a principal residence can be excluded from gross income. The discharge must have occurred on or after January 1, 2007, but before January 1, 2010, and no more than $2 million can be excluded. If Maryland's share of the expected amount that will be excluded nationwide is commensurate with its population (reduced under the assumption that Maryland taxpayers are less likely to have this type of discharge of indebtedness, since its per capita personal income is much higher than the national average, partially offset assuming that the amount discharged per person likely will be higher than the national average), this provision could cost the State about $356,000 per year for tax years 2007 through 2010.

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The exclusion applies retroactively to discharges that occurred in 2007, therefore the fiscal year 2008 impact would be all of the revenue loss expected for tax year 2007 and one-quarter of the revenue loss for tax year 2008 (assuming half of taxpayers reduce withholding and estimated tax payments). The remainder of the tax year 2008 revenue loss will occur in fiscal year 2009, along with one-quarter of the tax year 2009 revenue loss. The rest of the tax year 2009 revenue loss will occur in fiscal year 2010. Given these assumptions, the revenue losses attributable to this provision are estimated to be $445,000 in fiscal year 2008, $356,000 in fiscal year 2009, and $267,000 in fiscal year 2010.

The bill also extended by three years the sunset of the itemized deduction for private mortgage insurance premiums. Assuming that taxpayers won't adjust withholding or estimated tax payments, this provision is expected to reduce revenues by about $358,000 a year in fiscal years 2009 through 2011. A separate three-year exclusion of benefits provided to volunteer emergency medical services personnel and firefighters, which would otherwise be included in income, will reduce revenues over the same period by about $184,000 annually. Other provisions do not impact the calculation of the State and local tax or have a minimal impact on revenues. A third bill, the *Tax Increase Prevention Act of 2007*, extended, for one year, both the higher federal alternative minimum tax (AMT) exemption amounts and the offset of non-refundable personal tax credits against regular and AMT liability. Neither amendment will have an impact on Maryland revenues.

The *Economic Stimulus Act of 2008* provides for rebates to individuals subject to the income tax (and certain individuals who are not), intended to stimulate consumer spending. The rebates range from $300 to $600 per person and are phased out for upper-income taxpayers. The rebates have no direct impact on income tax revenues, but are expected to have an indirect impact on State revenue to the extent that the rebates are spent on goods subject to the sales and use tax. Maryland's share of the rebates is expected to be $2.4 billion. It is estimated that one-third will be spent on taxable goods and that one-third of the related sales tax ($16 million) will be collected in fiscal year 2008; about $30 million in general fund revenues will be collected in fiscal year 2009.

I hope this information is useful to you. If you have any questions or concerns, please contact my office or David F. Roose, the Director of the Bureau of Revenue Estimates, who prepared this analysis.

Sincerely,

Peter Franchot

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Comptroller of Maryland

cc: Treasurer Nancy K. Kopp
Secretary T. Eloise Foster