

Department of Legislative Services  
2014 Session

FISCAL AND POLICY NOTE

House Bill 870  
Ways and Means

(Delegate Smigiel, *et al.*)

**Income Tax - Subtraction Modification - Toll Charges Paid by Chesapeake Bay Bridge or Hatem Bridge Commuters**

This bill creates a subtraction modification against the State income tax for qualified toll expenses incurred while traveling on the Chesapeake Bay Bridge or Thomas J. Hatem Memorial Bridge. In order to qualify, the toll expenses must be paid using a Maryland E-ZPass and incurred during noncommercial travel throughout the State, and the individual must participate in a commuter discount rate program established by the Maryland Transportation Authority (MDTA).

The bill takes effect July 1, 2014, and applies to tax years 2014 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$183,200 in FY 2015 due to eligible toll expenses being claimed against the State income tax. Future year revenue decreases reflect forecasted increases in eligible toll expenses. General fund expenditures increase by \$48,000 in FY 2015 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$183,200)	(\$184,600)	(\$184,600)	(\$186,500)	(\$189,500)
GF Expenditure	\$48,000	\$0	\$0	\$0	\$0
Net Effect	(\$231,200)	(\$184,600)	(\$184,600)	(\$186,500)	(\$189,500)

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

**Local Effect:** Local income tax revenues decrease by \$119,500 in FY 2015 and by \$123,700 in FY 2019. Local expenditures are not affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** No similar State income tax subtraction modification exists. Federal income tax law provides that specified toll expenses can be deducted under certain circumstances. Businesses may deduct toll expenses as ordinary and necessary business expenses. In general, individuals cannot deduct the cost of commuting expenses incurred while traveling to work. However, individuals may deduct transportation expenses under certain circumstances, including expenses incurred while traveling to a business meeting away from the regular workplace or transportation expenses incurred while traveling to school.

The federal deduction flows through and typically causes a reduction in State income taxes if the individual itemizes for State income tax purposes.

**Background:** Electronic toll transactions expedite the toll collection process, reduce delays at toll plazas, reduce vehicle idling time (thereby reducing emissions), and allow for the efficient movement of goods and people. E-ZPass can be used at eight facilities in Maryland: (1) Baltimore Harbor Tunnel; (2) Fort McHenry Tunnel; (3) Francis Scott Key Bridge; (4) Thomas J. Hatem Bridge; (5) Harry W. Nice Bridge; (6) Intercounty Connector (ICC)/MD 200; (7) John F. Kennedy Memorial Highway; and (8) William Preston Lane Bay Bridge. The ICC is an all-electronic toll facility – travelers must generally use an E-ZPass to pay tolls. The I-95 Express Toll Lane project, an eight-mile expansion of I-95 from the I-895 split east of Baltimore City north to MD 43 in White Marsh, will also only accept E-ZPass payment of tolls.

**State Revenues:** Subtraction modifications may be claimed beginning in tax year 2014. As a result, fiscal 2015 revenues will decrease by \$183,200. This estimate is based on the following facts and assumptions:

- in fiscal 2013, toll revenue totaled \$9.1 million at the Thomas J. Hatem Bridge and \$55.7 million at the Chesapeake Bay Bridge;
- MDTA estimates that about 6% of the total toll revenue collected at the two facilities is paid through an E-ZPass commuter plan and will qualify for the proposed tax benefit;
- total MDTA toll revenue increased by 31% in fiscal 2014;
- future year E-ZPass commuter toll expenses increase based on the MDTA's projected increase in total vehicle miles travelled at all facilities; and
- 15% of qualified E-ZPass tolls paid in each year are not claimed on a taxable return.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$48,000 in fiscal 2015 to add the subtraction modification to the personal income tax return. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

**Local Revenues:** Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Accordingly, local revenues decrease by \$119,500 in fiscal 2015, \$120,500 in fiscal 2016, \$120,500 in fiscal 2017, \$121,700 in fiscal 2018, and \$123,700 in fiscal 2019.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 245 (Senator Jacobs, *et al.*) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 18, 2014  
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