

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

House Bill 313

(Delegate Anderson, *et al.*) (By Request - Baltimore City Administration)

Ways and Means

Budget and Taxation

Maryland Income Tax Refund - Baltimore City - Warrants

This bill expands the Anne Arundel County warrant intercept program to Baltimore City. It authorizes an official of the federal, State, or local government charged with serving a criminal arrest warrant to certify to the Comptroller that an individual has an outstanding warrant and to request that the Comptroller withhold the individual’s income tax refund. The bill applies only to individuals who are residents of Baltimore City or have an outstanding warrant from Baltimore City. Under the bill, the Baltimore City program would terminate on September 30, 2019.

Fiscal Summary

State Effect: State revenues increase by \$156,000 in FY 2015 due to the Comptroller intercepting the income tax refunds of specified individuals with outstanding warrants. General fund expenditures increase by \$94,900 in FY 2015 due to implementation costs at the Comptroller’s Office. Future years reflect annualization and inflation.

| (in dollars) | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|----------------|-----------|-----------|------------|------------|------------|
| GF Revenue | \$156,000 | \$115,000 | \$37,000 | \$37,000 | \$37,000 |
| GF Expenditure | \$94,900 | \$118,400 | \$124,100 | \$130,000 | \$136,200 |
| Net Effect | \$61,100 | (\$3,400) | (\$87,100) | (\$93,000) | (\$99,200) |

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

Local Effect: Local income tax revenues increase by \$101,600 in FY 2015 and by \$24,500 in FY 2019. Baltimore City expenditures increase by \$99,300 in FY 2015 in order to implement the bill. In addition, Baltimore City warrant service expenditures may decrease beginning in FY 2015.

Small Business Effect: None.

Analysis

Current Law: Chapter 451 of 2012 established the Anne Arundel County warrant intercept program. It authorizes an official of the federal, State, or local government charged with serving a criminal arrest warrant to certify to the Comptroller that an individual who is either a Maryland resident or who receives income from Maryland has an outstanding warrant and to request that the Comptroller withhold the individual's income tax refund. For any individual for which a certification of an outstanding warrant is received, the Comptroller is required to withhold the individual's income tax refund and notify the individual of the certification of an outstanding warrant. The Comptroller may not withhold a refund if the individual is an active duty member of the U.S. Armed Forces or files a joint income tax return.

The program applies only to individuals who are residents of Anne Arundel County or have an outstanding warrant from Anne Arundel County. Chapter 213 of 2013 extended the termination date of the Anne Arundel County warrant intercept program by five years to September 30, 2018.

Background: The Comptroller's Office reported in December 2013 that there were 8,109 outstanding warrants in Anne Arundel County. Of the outstanding warrants, 5,128 cannot be linked to the tax system because of missing identifying information (principally Social Security numbers). As of November 1, 2013, the Comptroller's Office has released a total of \$271,013 in refunds from 328 individuals whose warrants were satisfied. A total of 450 refunds totaling \$271,013 were being withheld from individuals with outstanding warrants. The Comptroller's Office estimated that there were about 200,000 outstanding warrants statewide.

State Fiscal Effect: The bill extends the Anne Arundel County warrant intercept program to Baltimore City. Baltimore City advises that the city currently has 42,000 outstanding warrants. Based on the requirements of the bill, the estimated number of individuals who file income tax returns and are owed refunds, the number of warrants that will be matched to an income tax refund, and other factors, general fund revenues will increase by \$156,000 in fiscal 2015, as shown in **Exhibit 1**. Revenue increases will be less in future years as individuals satisfy warrants and the Comptroller's Office releases the income tax return of the individual. It is assumed that 80% of individuals satisfy a warrant within three years, with the remaining amount retained by the Comptroller's Office.

Exhibit 1
Fiscal Impact of Legislation
Fiscal 2015-2019

| | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> |
|-----------------------|-----------------|------------------|-------------------|-------------------|-----------------|
| Revenues | | | | | |
| Income Taxes Withheld | \$156,000 | \$115,000 | \$37,000 | \$37,000 | \$37,000 |
| Expenditures | | | | | |
| Comptroller's Office | 94,900 | 118,400 | 124,100 | 130,000 | 136,200 |
| Net Impact | \$61,100 | (\$3,400) | (\$87,100) | (\$93,000) | (99,200) |

General fund expenditures increase by \$94,900 in fiscal 2015, which accounts for the bill's October 1, 2014 effective date. This estimate reflects the cost of hiring two revenue specialists at the Comptroller's Office to implement the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

| | |
|-----------------------------------|-----------------|
| Positions | 2 |
| Salary and Fringe Benefits | \$51,078 |
| Operating Expenses | <u>43,813</u> |
| Total FY 2015 Expenditures | \$94,891 |

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Fiscal Effect: Baltimore City advises that it will need to hire two administrative clerks in order to implement the bill. Baltimore City expenditures will increase by \$99,300 in fiscal 2015, \$136,400 in fiscal 2016, \$142,800 in fiscal 2017, \$149,600 in fiscal 2018, and \$156,600 in fiscal 2019. Baltimore City indicates that the bill will decrease expenditures related to the processing and serving of warrants conducted by its warrant squad. On average, it takes about two hours to process and serve a warrant, and longer if the individual is apprehended. Baltimore City cannot quantify these savings, but anticipates the expenditure savings will be greater than the expenditure increase from hiring two personnel to implement the bill.

Local income tax revenues will increase by \$101,600 in fiscal 2015, \$74,900 in fiscal 2016, and by \$24,500 annually in fiscal 2017 through 2019. Most of these revenues will be for Baltimore City.

Additional Information

Prior Introductions: None.

Cross File: SB 266 (Baltimore City Senators)(By Request - Baltimore City Administration) - Budget and Taxation.

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

Fiscal Note History: First Reader - January 27, 2014
ncs/jrb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510