

Department of Legislative Services
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1228
Ways and Means

(Delegate Luedtke, *et al.*)

Budget and Taxation

**Income Tax - Subtraction Modification - Volunteer Fire, Rescue, and Emergency
Medical Services Members**

This bill expands the value of the existing State income tax subtraction modification for qualifying volunteer fire, rescue, or emergency medical services personnel from \$3,500 to \$5,000, phased in over six years beginning in tax year 2014.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by \$150,000 in FY 2015 due to the expansion of the subtraction modification. Future year estimates reflect the phase in of the expanded value of the subtraction and a stable number of taxpayers. Expenditures are not affected.

| (in dollars) | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|--------------|-------------|-------------|-------------|-------------|-------------|
| GF Revenue | (\$150,000) | (\$300,000) | (\$450,000) | (\$600,000) | (\$750,000) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | (\$150,000) | (\$300,000) | (\$450,000) | (\$600,000) | (\$750,000) |

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

Local Effect: Local income tax revenues decrease by \$98,000 in FY 2015 and by \$489,000 in FY 2019. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: The Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue, and Emergency Medical Services Personnel Subtraction Modification Program allows a subtraction modification of \$3,500 for individuals who serve in a volunteer

capacity and qualify for active duty service during the tax year. Individuals can qualify if they are (1) a member of a Maryland fire, rescue, or emergency medical services organization; (2) a member of an auxiliary organization of a Maryland fire, rescue, or emergency medical services organization; (3) a police auxiliary or reserve volunteer; (4) a member of the Maryland Defense Force; or (5) a member of the U.S. Coast Guard Auxiliary. A member of the Maryland Civil Air Patrol will be eligible beginning in tax year 2015.

Chapter 267 of 2003 allowed an individual to claim the subtraction modification if the individual did not qualify due to being called into service on active duty in the U.S. Armed Forces or was a qualifying civilian or member of the Merchant Marines in support of the Armed Forces in a designated combat zone.

According to the Department of Budget and Management's *Fiscal 2014 Tax Expenditure Report*, the subtraction modification will reduce State revenues by \$2.0 million and local income tax revenues by \$1.2 million in fiscal 2015.

State and Local Revenues: The bill increases the value of the subtraction modification to equal (1) \$3,750 in tax year 2014; (2) \$4,000 in tax year 2015; (3) \$4,250 in tax year 2016; (4) \$4,500 in tax year 2017; (5) \$4,750 in tax year 2018; and (6) \$5,000 beginning with tax year 2019. As a result, general fund revenues will decrease by \$150,000 in fiscal 2015, \$300,000 in fiscal 2016, \$450,000 in fiscal 2017, \$600,000 in fiscal 2018, and \$750,000 in fiscal 2019. This estimate assumes that all members under the subtraction modification program qualify for the proposed expansion.

Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Local income tax revenues decrease by \$98,000 in fiscal 2015, \$196,000 in fiscal 2016, \$294,000 in fiscal 2017, \$392,000 in fiscal 2018, and \$489,000 in fiscal 2019.

Additional Information

Prior Introductions: None.

Cross File: SB 1070 (Senator DeGrange, *et al.*) - Budget and Taxation.

Information Source(s): Department of Budget and Management, Department of Legislative Services

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