

**Department of Legislative Services**  
2016 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 655

(Senator Salling, *et al.*)

Budget and Taxation

**Income Tax - Subtraction Modification - Qualified Maryland Toll Expenses**

This bill creates a subtraction modification against the State income tax for qualified toll expenses incurred by an individual. In order to qualify, the toll expenses must (1) be paid using a Maryland E-ZPass; (2) total at least \$300 in the taxable year; and (3) be incurred during noncommercial or two-axle commercial travel throughout the State. Ineligible expenses include any E-ZPass expenses that are (1) not available as a prepaid toll balance; (2) reimbursed by an employer; or (3) claimed as a deduction under the federal income tax. The maximum value of the subtraction modification is limited to \$500 for individuals and \$1,000 for joint returns. The eligible expenses incurred in excess of the limit can be carried forward to the next three tax years.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$6.6 million in FY 2017 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 \$34,100 in FY 2017 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)	(\$6.8)
GF Expenditure	\$0.0	\$0	\$0	\$0	\$0
Net Effect	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)	(\$6.8)

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

**Local Effect:** Local income tax revenues decrease by \$4.3 million in FY 2017 and by \$4.4 million in FY 2021. Local expenditures are not affected.

**Small Business Effect:** Minimal.

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## **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 and local 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 nine 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; (8) William Preston Lane Bay Bridge; and (9) I-95 Express Toll Lanes (ETL).

The Maryland Transportation Authority reduced toll rates systemwide on July 1, 2015. Fiscal 2016 toll revenues are expected to decrease by about \$45.0 million, or 7.1%, due to the rate reductions. Toll reductions at the Bay Bridge comprise a little more than one-half of the total expected revenue loss.

**State Revenues:** Subtraction modifications may be claimed beginning in tax year 2016. It is assumed that taxpayers will not adjust withholdings and estimated payments. As a result, fiscal 2017 revenues will decrease by \$6.6 million. This estimate is based on the following facts and assumptions:

- in fiscal 2015, E-ZPass revenues totaled \$479.1 million;
- E-ZPass toll expenses decrease by 7% in fiscal 2016 and increase in future years based on the projected increase in total vehicle miles travelled at all facilities; and
- about 30% of E-ZPass tolls paid in each year are deducted on a resident taxable return and are eligible for the subtraction modification.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$34,100 in fiscal 2017 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 modifications claimed. Accordingly, local revenues decrease by \$4.3 million in fiscal 2017 and \$4.4 million by fiscal 2021.

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### **Additional Information**

**Prior Introductions:** SB 376 of 2015 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 1085, received a hearing in the House Ways and Means Committee, but no further action was taken. Similar legislation was introduced in the 2012 and 2014 sessions. HB 877 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 791 of 2014 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 245 of 2014 was withdrawn. The cross files, HB 643 and HB 870, received a hearing in the House Ways and Means Committee, but no further action was taken. SB 210 of 2012 received an unfavorable report from the Senate Budget and Taxation Committee. Its cross file, HB 275, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

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

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