

Department of Legislative Services  
2019 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 889  
Ways and Means

(Delegate Long)

**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, 2019, and applies to tax year 2019 and beyond.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$6.5 million in FY 2020 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 \$55,000 in FY 2020 due to one-time computer programming expenses at the Comptroller’s Office.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$6.5)	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$6.6)	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)

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

**Local Effect:** Local income tax revenues decrease by \$4.2 million in FY 2020 and by \$4.4 million in FY 2024. Local expenditures are not affected.

**Small Business Effect:** Minimal.

## 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. Prior to tax year 2018, individuals could deduct certain work-related travel, transportation, and meal expenses. Recent federal legislation eliminated the deductibility of these expenses beginning with tax year 2018.

**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 Memorial/Senator Thomas “Mac” Middleton 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.

**State Revenues:** Subtraction modifications may be claimed beginning in tax year 2019. As a result, fiscal 2020 revenues will decrease by \$6.5 million. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

---

**Exhibit 1**  
**State and Local Revenue Impacts**  
**Fiscal 2020-2024**  
**(\$ in Millions)**

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
State	(\$6.5)	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)
Local	(4.2)	(4.3)	(4.3)	(4.3)	(4.4)
<b>Total Revenues</b>	<b>(\$10.8)</b>	<b>(\$10.8)</b>	<b>(\$10.9)</b>	<b>(\$11.0)</b>	<b>(\$11.1)</b>

---

This estimate is based on the following facts and assumptions:

- in fiscal 2020, E-ZPass revenues will total an estimated \$489.2 million;
- about 30% of E-ZPass tolls paid in each year are deducted on a resident taxable return and are eligible for the subtraction modification; and
- Future year revenue decreases reflect forecasted increases in eligible toll expenses.

**State Expenditures:** The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$55,000 in fiscal 2020 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 as a result of subtraction modifications claimed against the personal income tax. Local revenues decrease by \$4.2 million in fiscal 2020 and by \$4.4 million in fiscal 2024, as shown in Exhibit 1.

---

### **Additional Information**

**Prior Introductions:** HB 1317 of 2018 and HB 1235 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 655 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. 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 2014 session.

**Cross File:** None.

**Information Source(s):** Comptroller’s Office; Maryland Department of Transportation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 18, 2019  
sb/hlb

---

Analysis by: Robert J. Rehrmann

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