

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 562 (Delegate Cox, *et al.*)
 Ways and Means

Income Tax - Subtraction Modification - Volunteer Fire, Rescue, and Emergency Medical Services Personnel (First Responders Tax Benefit Act)

This bill alters eligibility of the State income tax subtraction modification for qualifying volunteer fire, rescue, or emergency medical services personnel by allowing an individual to qualify for active status by (1) earning at least 30 points under a Length of Service Award Program (LOSAP) plan or similar system or (2) qualifying as an active member for at least 12 months in the past 10 calendar years. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease by \$495,000 in FY 2021 due to additional subtraction modifications claimed against the personal income tax. Future year revenue decreases reflect the estimated number of eligible taxpayers and the phase-in of the subtraction modification as specified under current law. Expenditures are not affected.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$495,000)	(\$547,000)	(\$601,000)	(\$613,000)	(\$625,000)
Expenditure	0	0	0	0	0
Net Effect	(\$495,000)	(\$547,000)	(\$601,000)	(\$613,000)	(\$625,000)

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

Local Effect: Local revenues decrease by \$323,000 in FY 2021 and by \$408,000 in FY 2025. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: The Honorable Louis L. Goldstein Volunteer Fire, Rescue, and Emergency Medical Services Personnel Subtraction Modification Program allows a subtraction modification for individuals who serve in a volunteer capacity and meet specified requirements 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 member of the Maryland Defense Force; (4) a member of the U.S. Coast Guard Auxiliary; or (5) a member of the Maryland Civil Air Patrol.

The individual must also (1) have been an active member of a qualifying organization for at least 36 months during the last 10 calendar years and (2) qualify for active status during the tax year or have maintained active status for at least 25 years under a volunteer fire, rescue, or emergency medical services personnel or auxiliary LOSAP. An individual qualifies for active status under LOSAP or a similar plan by earning a minimum of 50 points in the year in at least two different categories.

In addition, Chapter 267 of 2003 allowed an individual to claim the subtraction modification if the individual did not qualify for active status 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 U.S. Armed Forces in a designated combat zone.

Legislation enacted in the 2014 and 2018 sessions doubled to \$7,000 the value of the State income tax subtraction, phased in over nine years beginning in tax year 2014. The amount of the subtraction is equal to (1) \$5,000 in tax year 2019; (2) \$6,000 in tax year 2020; (3) \$6,500 in tax year 2021; and (4) \$7,000 beginning in tax year 2022.

State Revenues: The bill alters eligibility for the subtraction modification beginning in tax year 2020. As a result, general fund revenues will decrease by an estimated \$495,000 in fiscal 2021. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1 State and Local Revenue Impacts Fiscal 2021-2025

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
State	(\$495,000)	(\$547,000)	(\$601,000)	(\$613,000)	(\$625,000)
Local	(323,000)	(357,000)	(392,000)	(400,000)	(408,000)
Total	(\$818,000)	(\$904,000)	(\$993,000)	(\$1,013,000)	(\$1,033,000)

According to the Comptroller's Office, about 10,700 taxpayers claimed the subtraction modification in tax year 2016. This estimate assumes that altering eligibility for the subtraction modification as proposed by the bill will increase the number of subtraction modification claims by 15%.

Local Revenues: Local income tax revenues will decrease as a result of additional subtraction modifications claimed against the personal income tax. Local revenues will decrease by \$323,000 in fiscal 2021 and by \$408,000 in fiscal 2025, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Fireman's Association; Department of Legislative Services

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mr/hlb

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