

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 617 (Delegate Rosenberg, et al.)
Ways and Means

Income Tax - Subtraction Modification for Volunteer Service

This bill creates a \$1,000 subtraction modification for the individual income tax for individuals who provide 500 hours of uncompensated service to a qualifying charitable organization in a tax year. If a charitable organization elects to participate, it must, at the request of the volunteer, keep records of the hours worked and provide a report by February 15 of each year showing the number of hours worked. If an individual makes a false statement in such a report, or in a tax return, the individual is subject to a fine of \$1,000.

The bill is effective July 1, 1996, and applies to every tax year beginning after December 31, 1996.

Fiscal Summary

State Effect: Potential general fund revenue decrease of \$6.3 million in FY 1998. Future year estimates reflect current population and volunteerism trends. Expenditures are not affected.

(in thousands)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$0	(\$6,300)	(\$6,000)	(\$5,800)	(\$5,500)
GF Expenditures	0	0	0	0	0
Net Effect	\$0	(\$6,300)	(\$6,000)	(\$5,800)	(\$5,500)

Note: () - decrease; GF - general funds

Local Effect: Potential revenue decrease of \$3.4 million in FY 1998.

Fiscal Analysis

State Revenues: Based on the data and assumptions discussed below, the proposed \$1,000 subtraction modification could lower general fund revenues by as much as \$6.3 million in fiscal 1998.

Little data exists on the level of volunteerism in Maryland, since nonprofit and charitable organizations currently are not required to track their use of volunteers. A limited amount of survey data are available and serve as the basis for this analysis.

This estimate assumes that 40% of Maryland's adult population perform some amount of volunteer service. Of those volunteers, 11% donate approximately 500 hours or more each year. Approximately 73% of Maryland's adult population pay Maryland taxes. Therefore, it is assumed that only 73% of qualifying volunteers will take advantage of the subtraction modification. In addition, it is assumed that all taxpayers claiming the subtraction modification would be in the 5% tax bracket (over \$3,000 of taxable income). This would lower each qualifying individual's tax liability by \$75 (State and local). **Exhibit 1** shows the estimated number of volunteers that would claim the subtraction modification each year and the resulting State and local revenue loss.

The actual revenue loss may be lower than the estimate for two reasons. First, certain types of volunteer service do not qualify for the subtraction modification. Service that does not qualify includes court ordered community service, service performed to earn school credit, service for which a stipend is received, or any other service that is contractually or legally required or for which any consideration is received. Data is not available to reliably estimate the number of volunteers that fall into these categories or the number of hours they perform. Thus, this estimate has not been adjusted to account for these volunteers.

Second, individuals do not qualify for the subtraction modification unless the organization for which they volunteer elects to maintain records and provide volunteers with reports of the number of hours volunteered each year. The number of participating organizations cannot be reliably estimated.

However, to the extent that this bill provides incentive for more people to volunteer, the out-year costs would be higher.

Local Revenues: Local income tax revenues could decrease by as much as \$3.4 million, or 54% of the State decrease, in fiscal 1998. See **Exhibit 1** for future year estimates.

Exhibit 1 Revenue Effect of HB 617

(all numbers in thousands)

<u>Fiscal Year*</u>	<u>Volunteers Claiming Subtraction**</u>	<u>State Revenue Decrease</u>	<u>Local Revenue Decrease</u>
1998	126	\$6,300	\$3,400
1999	121	\$6,000	\$3,300
2000	115	\$5,800	\$3,100
2001	110	\$5,500	\$3,000

* Revenue decreases resulting from subtraction modifications claimed for tax year 1997 will occur in fiscal 1998.

** Estimates for fiscal 1999 - 2001 reflect projected changes in population and the percentage of the population performing volunteer service.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Independent Sector, Schaeffer Center for Public Policy, Maryland Association of Nonprofit Organizations

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