

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

House Bill 171 (Delegate Crvor. *et al.*)

Ways and Means

Income Tax - Subtraction Modification - Military Compensation

This bill extends the existing subtraction modification for military pay under the Maryland State income tax to include all military compensation paid to or incurred by active duty military personnel.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated \$15.9 million in FY 2001. Future years reflect 3.5% annual wage growth and reduced income tax rates. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$15.9)	(\$16.3)	(\$16.7)	(\$17.3)	(\$17.9)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$15.9)	(\$16.3)	(\$16.7)	(\$17.3)	(\$17.9)

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

Local Effect: Total local government revenue loss of approximately \$8.7 million in FY 2001; \$9.1 million in FY 2002; \$9.4 million in FY 2003; \$9.7 million in FY 2004; and \$10.1 million in FY 2005.

Small Business Effect: None.

Analysis

Current Law: Military personnel serving overseas are allowed a subtraction modification under the State income tax. The amount of the exemption varies depending on the individual's rate of pay. The subtraction includes the first \$15,000 of military pay that is: (1) attributable to military service of the individual who is in active service of any branch of the armed forces; and (2) attributable to military service of the individual outside the United States. In addition, the amount of the subtraction is: (1) reduced dollar for dollar in the amount by which military pay received by the individual exceeds \$15,000; and (2) reduced to zero if the amount of military pay received by the individual exceeds \$30,000.

State Fiscal Effect: General fund revenues would decrease by approximately \$15.9 million in fiscal 2001 based on the following facts and assumptions.

- There were 20,6011 active duty military personnel whose home state of record was Maryland in 1998 with wages totaling \$306,974,717.
- Pay raises and additional personnel will result in wage growth of 3.5% annually.

Military personnel who are stationed in Maryland, but whose home state of record is not Maryland, are not subject to the Maryland State income tax.

To the extent that wages grow at a rate that is more or less than 3.5% annually, the general fund revenue loss will be more or less than estimated.

Local Fiscal Effect: Local revenues would decline by approximately 2.67% of the total subtraction taken for military retirement income. Based on the estimate above, the reduction would be \$8.7 million for fiscal 2001.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland Military Department, Department of Legislative Services

Fiscal Note History: First Reader - February 2, 2000
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