

**Department of Legislative Services**  
 Maryland General Assembly  
 2001 Session

**FISCAL NOTE**

House Bill 22           (Delegate Cryor)  
 Ways and Means

**Income Tax - Subtraction Modification - Military Compensation**

This bill extends the existing subtraction modification for military pay received by military personnel stationed overseas under the Maryland State income tax to include the first \$15,000 of military compensation paid to or incurred by any active duty military personnel.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2000.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by an estimated \$3.3 million in FY 2002, which reflects one and one-half tax years. Future years reflect 4% annual wage growth, a reduction in the number of military personnel eligible for the subtraction, and reduced income tax rates. No effect on expenditures.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$3,344,700)	(\$2,104,100)	(\$2,014,200)	(\$1,928,100)	(\$1,845,700)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$3,344,700)	(\$2,104,100)	(\$2,014,200)	(\$1,928,100)	(\$1,845,700)

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

**Local Effect:** Total local government revenue loss of approximately \$1.9 million in FY 2002; \$1.2 million in FY 2003; \$1.2 million in FY 2004; \$1.1 million in FY 2005; and \$1.1 million in FY 2006.

**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 \$2.3 million in tax year 2001. Although the subtraction is modified for tax year 2001, it is assumed most taxpayers will not adjust their withholding and estimated payments to reflect the change until after July 1, 2001. Consequently, general fund revenues are estimated to decrease by approximately \$3.3 million in fiscal 2002, reflecting one and one-half tax years. The estimate is based on the following facts and assumptions:

- 20,611 active duty military personnel whose home state of record was Maryland in 1998 with wages totaling \$306,974,717;
- military personnel eligible for the subtraction will decrease by approximately 4.3% annually, which is the average personnel reduction amount for all U.S. military personnel between 1989 and 1997;
- 14,986 active duty military personnel eligible for the subtraction; and
- wages will increase by 4% annually.

Future year revenue decreases reflect a single fiscal year's loss.

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.

**Local Fiscal Effect:** Local revenues would decline by approximately 2.74% of the total State subtraction taken for military income. Based on the estimate above, the reduction would be \$1.9 million for fiscal 2002.

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## Additional Information

**Prior Introductions:** A similar bill was introduced as HB 171 during the 2000 session. It received an unfavorable report by the Ways and Means Committee.

**Cross File:** None.

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

**Fiscal Note History:** First Reader – January 29, 2001  
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