

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 297 (Senator Teitelbaum, *et al.*)
Budget and Taxation

**Income Tax - Subtraction Modification for Licensed Practical Nurses Returning
to Nursing**

This bill provides for a subtraction modification under the Maryland income tax for the first \$4,000 of compensation received by an individual during the taxable year for employment in the State as a licensed practical nurse in a hospital or related institution. The subtraction may be claimed only if the individual: (1) was previously employed as a licensed practical nurse in the State; (2) for a consecutive period of at least three years ending on or after the beginning of the preceding taxable year, was not employed as a licensed practical nurse in the State; and (3) as of the end of the current taxable year, has been employed full-time as a licensed practical nurse for at least a full year after the period of absence from the nursing profession.

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 \$190 for every subtraction taken beginning in FY 2003. The total decrease depends on the number of individuals who return to nursing and claim the subtraction modification, which cannot be reliably estimated at this time. Special fund revenues could increase resulting from license renewals beginning in FY 2002.

Local Effect: Local government revenues would decrease by approximately \$110 for every State subtraction taken.

Small Business Effect: Minimal.

Analysis

Current Law: No subtraction modification of this type exists under the Maryland income tax.

Background: There is a nationwide nursing shortage due to a large number of retiring nurses, coupled with the fact that few people are currently choosing nursing as a career. In addition, given the rapid aging of the population, both in Maryland and nationally, more nurses will be needed in the near future. Data from the State Board of Nursing indicate that in 1999 more than 2,300 nurses with active licenses failed to renew their licenses. As a result, Chapters 257 and 258, Acts of 2000 established the Statewide Commission on the Crisis in Nursing to look into the issue.

The Commission on the Crisis in Nursing issued its interim report to the General Assembly in February 2001. The commission made the following recommendations:

- Modify the criteria for nursing scholarships to allow greater eligibility, flexibility, and more financial support for nursing students.
- Increase the dollar amounts for nursing scholarships, based on the fact that the current dollar amount eliminates the funding of half of the eligible candidates and does not meet tuition costs.
- Include a reality-based (living) stipend in scholarships. This would allow working students to work part-time rather than full-time.
- Grant scholarships by semester thus allowing students who finish in three semesters access to funds in the third semester.
- Allow in-county tuition for attendance of a community college outside of the county of residence for those students who cannot be admitted in county due to a lack of space.

This bill seeks to address this issue by providing a tax incentive to encourage licensed practical nurses who have been out of the nursing profession for at least three years to return to nursing.

The Maryland income tax law provides tax incentives in the form of subtraction modifications to encourage individuals to provide services that are considered to be in short supply. These subtractions apply to volunteer police officers and individuals who belong to a volunteer fire, rescue, or emergency services organization or the U.S. Coast Guard Auxiliary.

State Fiscal Effect: The actual cost of the bill cannot be reliably estimated because it is not known how many individuals would return to nursing because of this bill. However, as a point of reference, general fund revenues would decrease by \$190 ($\$4,000 \times 4.75\%$) beginning in fiscal 2003 (tax year 2002) for each licensed practical nurse who returns to nursing in tax year 2001. Licensed practical nurses must work for one year before being eligible to claim the subtraction. *For illustrative purposes only*, if 200 licensed practical nurses returned to nursing and took the subtraction modification provided by the bill in 2002, general fund revenues would decrease by \$38,000 in fiscal 2003.

The State Board of Nursing advises that there are 7,945 licensed practical nurses actively working in Maryland as of December 31, 2000. An additional 432 had inactive licenses.

Special fund revenues would increase by \$30 for each licensed practical nurse returning to nursing and paying the license renewal fee.

Local Fiscal Effect: Total local government revenues would decrease by approximately \$111 for every subtraction taken ($\$4,000 \times 2.77\%$) in tax year 2002. Based on the illustration above, local government revenues would decrease by approximately \$22,200 in fiscal 2003.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Health Care Commission, State Board of Nursing, Statewide Commission on the Crisis in Nursing Interim Report, Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader – February 9, 2001
jm/jr

Analysis by: Michael Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510