

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 320 (Senator Jacobs, *et al.*)
 Budget and Taxation

Income Tax - Subtraction Modification for Veterans

This bill provides a \$1,000 subtraction modification to veterans who were discharged or released under conditions other than dishonorable. Veterans are individuals who have served on active duty in the United States Army, Navy, Marine Corps, Air Force, or Coast Guard, including the reserve components of each or the National Guard of the United States.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$22.2 million in FY 2003. Future year reductions reflect a decreasing number of veterans.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$22.2)	(\$21.7)	(\$21.3)	(\$20.8)	(\$20.3)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$22.2)	(\$21.7)	(\$21.3)	(\$20.8)	(\$20.3)

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

Local Effect: Total local government revenue loss of approximately \$13.4 million in FY 2003.

Small Business Effect: None.

Analysis

Current Law: A subtraction modification is not currently provided to veterans.

The Maryland income tax provides a \$3,500 subtraction modification to members of a volunteer fire, rescue, or emergency medical services organization, including the United States Coast Guard Auxiliary.

In addition, the State provides an exclusion for military retirement income. The first \$2,500 of military retirement income received by an individual can be subtracted from federal adjusted gross income for the taxable year provided that the individual is at least 55 years of age on the last day of the taxable year and was an enlisted member of the military at the time of retirement. This subtraction is reduced by 50% of the amount by which the federal adjusted gross income exceeds \$17,500. No subtraction is allowed for individuals having federal adjusted gross income over \$22,500.

No states provide a general tax benefit provision for veterans, although several do provide some form of tax benefit for disabled veterans.

State Fiscal Effect: Based on U.S. Bureau of Veterans Affairs data, it is estimated that general fund revenues would decrease by approximately \$22.2 million in fiscal 2003 (\$47.50 for each veteran taking the subtraction). The number of veterans is estimated to decline by approximately 2% annually.

Exhibit 1 shows the general fund revenue decrease for fiscal 2003 through fiscal 2007.

Exhibit 1 Veterans in Maryland and Corresponding Revenue Reduction Resulting from \$1,000 Subtraction Modification

<u>Fiscal Year</u>	<u>Veterans In Maryland</u>	<u>Revenue Reduction</u>
2003	467,557	\$22,208,957
2004	457,552	\$21,733,720
2005	447,516	\$21,257,010
2006	437,481	\$20,780,348
2007	427,494	\$20,305,965

Local Fiscal Effect: Local government revenues would decrease by approximately 2.8% of the total State subtraction taken (or by 55% of the State revenue loss). Based on the

above estimate, total local government revenues are estimated to decrease by approximately \$13.4 million in fiscal 2003.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates),
Department of Legislative Services

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lsc/jr

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