

**Department of Legislative Services**  
 Maryland General Assembly  
 2003 Session

**FISCAL AND POLICY NOTE**

House Bill 38 (Delegate Cryor)  
 Ways and Means

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

This bill expands the existing subtraction modification for military pay by eliminating the requirement that the pay be attributable to service outside the United States.

The bill takes effect July 1, 2003 and applies to all taxable years beginning after December 31, 2002.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by an estimated \$4.7 million in FY 2004, which reflects one and one-half tax years. Future years reflect 4% annual wage growth and an increased number of military personnel eligible for the subtraction. No effect on expenditures.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	(\$4.7)	(\$3.3)	(\$3.5)	(\$3.7)	(\$3.7)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$4.7)	(\$3.3)	(\$3.5)	(\$3.7)	(\$3.7)

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

**Local Effect:** Total local government revenue loss of approximately \$2.8 million in FY 2004, which reflects one and one-half tax years. Future years reflect annualization and growth.

**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 \$3.1 million in tax year 2003. Although the subtraction is modified for tax year 2003, it is assumed most taxpayers will not adjust their withholding and estimated payments to reflect the change until after July 1, 2003. Consequently, general fund revenues are estimated to decrease by approximately \$4.7 million in fiscal 2004, reflecting one and one-half tax years. The estimate is based on the following facts and assumptions:

- 22,060 active duty military personnel whose home state of record was Maryland in 2000 with wages totaling \$345,359,126;
- an estimated 17,536 active duty military personnel will be eligible for the subtraction in tax year 2003;
- the number of Maryland residents in the military will increase by approximately 5% each year; 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 2.8% of the total State subtraction taken for military income. Based on the estimate above, the reduction would be \$2.8 million for fiscal 2004, which reflects one and one-half tax years. The out-year estimates are as follows:

Fiscal 2005: \$2.0 million  
Fiscal 2006: \$2.1 million  
Fiscal 2007: \$2.2 million  
Fiscal 2008: \$2.3 million

## **Additional Information**

**Prior Introductions:** HB 14 of 2002 was not reported from the House Ways and Means Committee. HB 22 of 2001 received an unfavorable report from the House Ways and Means Committee. HB 171 of 2000, a similar bill, received an unfavorable report by the Ways and Means Committee.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - January 28, 2003  
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