

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

House Bill 772  
 Ways and Means

(Delegate Gilleland, *et al.*)

**Income Tax - Credit for Firefighters, Law Enforcement Officers, and Teachers**

This bill creates a credit against the State income tax for firefighters, law enforcement officers, and teachers for the first three years of employment. In order to claim the credit, the individual must have been hired on or after July 1, 2004. The maximum amount of the credit is \$500 or the tax liability for that tax year.

The bill takes effect July 1, 2005 and applies to tax year 2006 and thereafter.

**Fiscal Summary**

**State Effect:** General fund revenue decrease of approximately \$18.0 million in FY 2007. Future year decreases reflect increase in new employees and increased numbers of individuals who qualify for the credit. Special fund expenditures increase by approximately \$52,000 in FY 2005, which includes one-time tax form changes and computer programming expenses.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$0	\$0	(\$18.0)	(\$19.0)	(\$19.3)
GF Expenditure	.1	0	0	0	0
Net Effect	(\$.1)	\$0	(\$18.0)	(\$19.0)	(\$19.3)

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

**Local Effect:** None. The tax credit proposed by the bill is taken against the State income tax only.

**Small Business Effect:** None.

## **Analysis**

**Bill Summary:** Law enforcement officers, teachers, and firefighters who are hired on or after July 1, 2004 qualify for a nonrefundable tax credit of \$500 for the first three years of their employment. The tax credit may not be carried forward. Individuals who were rehired as an employee on or after July 1, 2004 after being laid off for more than one year also qualify for the tax credit.

Law enforcement officers and firefighters must be employed at least 35 hours per week in order to qualify. Qualifying teachers must work at least 900 hours during an academic year at a private or public elementary or secondary school.

**Current Law:** No tax credit of this type exists. Certain volunteer police, fire, rescue, and emergency medical services personnel are allowed a subtraction modification of \$3,500 in a tax year.

**State Revenues:** The tax credit can be earned beginning in tax year 2006. Qualifying individuals can earn the tax credit in the first three years of employment. For example, in fiscal 2007, credits will be claimed by individuals hired in 2004, 2005, and 2006.

General fund revenues would decrease beginning in fiscal 2007 by approximately \$18.0 million. This estimate is based on the following facts and assumptions:

- taxpayers will have sufficient tax liability to claim the entire amount of the credit in any tax year;
- in 2002, there were approximately 15,534 income-earning law enforcement officers and 6,650 income-earning firefighters in Maryland;
- the Department of Labor, Licensing, and Regulation (DLLR) estimates that the number of police officers and firefighters will increase 1.77% annually between 2000 and 2010;
- it is assumed that there is an annual 11% turnover rate for law enforcement officers and firefighters;
- the Maryland State Department of Education estimates that 7,793 public school teachers will be hired in school year 2003 – 2004 and 8,158 in school year 2004 – 2005. For school year 2005 – 2006 and beyond, it is assumed that the number of new hires increases by 1.55% annually;
- in school-year 2002 – 2003, new hires were approximately 13% of the total number of public teachers in the State; and

- in 2002, there were approximately 18,046 teachers in private schools. It is estimated that the number of private school teachers increases 1.55% annually and that 8% of the total number of private school teachers are new hires.

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**Exhibit 1**  
**Fiscal Impact of HB 772**

<u>Fiscal Year</u>	<u>Qualifying Individuals</u>	<u>Credits Claimed</u>
2007	36,078	\$18,039,118
2008	37,965	18,982,400
2009	38,543	19,271,713

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**State Expenditures:** The Comptroller's Office advises that it would incur a one-time expenditure of \$52,000 in fiscal 2005 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Census Bureau; Bureau of Labor Statistics; Comptroller's Office; Department of Labor, Licensing, and Regulation; Maryland State Department of Education; Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2004  
lc/mdr

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