

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 913 (Delegate Cryor, *et al.*)
 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 U.S.

The bill takes effect July 1, 2004 and applies to tax year 2004 and thereafter.

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated \$4.3 million in FY 2005, 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 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$4.3)	(\$2.9)	(\$2.9)	(\$3.0)	(\$3.0)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$4.3)	(\$2.9)	(\$2.9)	(\$3.0)	(\$3.0)

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

Local Effect: Local government revenue loss of approximately \$2.5 million in FY 2005, 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 subtraction includes the first \$15,000 in

pay that is attributable to military service of the individual who is (1) in active service of any branch of the armed forces; and (2) outside the U.S. 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 military pay received by the individual exceeds \$30,000.

State Revenues: General fund revenues would decrease by approximately \$2.9 million in tax year 2004. Although the subtraction is modified for tax year 2004, it is assumed most taxpayers will not adjust their withholding and estimated payments to reflect the change until after July 1, 2004. Consequently, general fund revenues are estimated to decrease by approximately \$4.3 million in fiscal 2005, 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 16,401 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 1% each year; and
- wages will increase by 4% annually.

Future fiscal year revenue decreases reflect the impact of one tax year.

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 Revenues: 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 \$2.5 million for fiscal 2005, which reflects one and one-half tax years. The out-year estimates are as follows:

Fiscal 2006: \$1.7 million

Fiscal 2007: \$1.7 million

Fiscal 2008: \$1.8 million

Fiscal 2009: \$1.8 million

Additional Information

Prior Introductions: This bill was introduced in the 2003, 2002, and 2001 sessions. HB 38 of 2003 and HB 14 of 2002 were 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 House Ways and Means Committee.

Cross File: None.

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

Fiscal Note History: First Reader - March 12, 2004
lc/mdr

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