

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 68

(Chairman, Budget and Taxation Committee)
(By Request – Departmental – Comptroller)

Budget and Taxation

Ways and Means

**Income Tax - Police, Fire, Rescue, and Emergency Personnel in an Emergency or
a Disaster Area**

This departmental bill exempts out-of-state nonprofit organizations and government entities that provide police, fire, rescue, and emergency services personnel during a Maryland state of emergency from State registration and income tax withholding requirements. In addition, the bill exempts the income earned during these emergencies by nonresident employees of these organizations from State income tax.

The bill takes effect July 1, 2004 and applies to all tax years beginning after December 31, 2003.

Fiscal Summary

State Effect: Potential minimal decrease in State general fund revenues beginning in FY 2005 as a result of exempting income earned by out-of-state emergency personnel during states of emergency. No effect on expenditures.

Local Effect: None. Local taxes are not assessed on nonresidents who earn income in Maryland but do not live in the State.

Small Business Effect: The Comptroller's Office has determined that this bill will have minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Any corporation or nonprofit organization that does business in Maryland, whether foreign or domestic, must: (1) register with the Department of Assessments and Taxation; and (2) register with the Comptroller's Office and withhold Maryland income tax on the wages paid to the employee attributable to the services performed in Maryland. These employees are required to file a Maryland tax return and pay Maryland tax on that income. The withholding requirement does not apply to employees from states with whom Maryland has a reciprocal withholding agreement, including all the surrounding states except Delaware. Where there is such an agreement, the nonresident worker working in Maryland pays income tax to the worker's home state.

Background: This bill applies to states of emergency declared by the Governor. Nine states of emergency have been declared in the last 10 years. During these emergencies, it is not uncommon for out-of-state nonprofit organizations and government entities to provide police, fire, rescue, and emergency services personnel to assist another state or jurisdiction. According to the Maryland Emergency Management Agency, 36 out-of-state emergency personnel provided assistance during Hurricane Isabel.

Officials from other states have stated that some nonprofit and governmental organizations are hesitant to supply emergency personnel to assist in a Maryland state of emergency area because doing so will subject the organization and its employees to the State's registration and income tax laws. This bill removes these requirements.

State Revenue Effect: General fund revenues could decrease as a result of exempting income earned by out-of-state emergency personnel during states of emergency. Any decrease, however, would be minimal due to the limited amount of wages involved. For example, of the 36 out-of-state personnel who worked in Maryland during Hurricane Isabel, 30 were in the State less than 48 hours. The Comptroller's Office advises that due to tax collection and enforcement difficulties, this bill is unlikely to cause a decrease in general fund revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Emergency Management Agency, Department of Legislative Services

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n/mdr

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