

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Session

**FISCAL AND POLICY NOTE**

Senate Bill 982 (Senator McFadden)  
 Budget and Taxation

**Income Tax - Subtraction Modification - United States Coast Guard Auxiliary**

This bill expands the existing subtraction modification for qualifying volunteer fire, rescue, or emergency medical services personnel by increasing the amount of the subtraction modification from \$3,500 to \$4,500. In addition, the time in which certain individuals must be a member of the U.S. Coast Guard Auxiliary to be eligible for the subtraction modification would be reduced from at least 72 months to 36 months of the previous 10 years.

The bill takes effect July 1, 2007 and applies to tax year 2007 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by \$461,000 in FY 2008 due to the expansion of the subtraction modification. Future year revenues reflect estimated growth in eligible volunteers and estimated tax liability. Expenditures would not be affected.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$461,000)	(\$481,200)	(\$502,300)	(\$524,400)	(\$547,500)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$461,000)	(\$481,200)	(\$502,300)	(\$524,400)	(\$547,500)

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

**Local Effect:** Local income tax revenues would decrease by \$291,100 in FY 2008. Future year revenue losses would increase by about 4.5% each year thereafter, with the decrease in local revenues totaling \$345,800 in FY 2012. Expenditures would not be affected.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** The Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue, and Emergency Personnel Subtraction Modification Program provides a subtraction modification of \$3,500 for individuals who serve in a volunteer capacity and qualify for active duty service during the tax year. Individuals can qualify if they are (1) a member of a Maryland fire, rescue, or emergency medical services organization; (2) a member of an auxiliary organization of a Maryland fire, rescue, or emergency medical services organization; (3) a police auxiliary or reserve volunteer; or (4) a member of the U.S. Coast Guard Auxiliary.

An individual can qualify for active status (1) under • a volunteer fire, rescue, or emergency medical services personnel or auxiliary length of service award program operated by a county or municipality that requires at least 50 points annually in at least two different categories; • a point system established by a county or municipality that does not operate a volunteer fire, rescue, or emergency medical services personnel or auxiliary length of service award program or by the U. S. Coast Guard Auxiliary that identifies requires at least 50 points annually in at least two categories; or • a police auxiliary reserve volunteer program approved by the Police Training Commission in conjunction with the Maryland Association of Counties and the Maryland Municipal League; (2) by maintaining active status for at least 25 years; (3) by being a member of the National Guard or other rescue component of the U. S. Armed Forces who has been ordered into active military service during the tax year; or (4) by being a civilian or member of the Merchant Marine on assignment in support of the armed forces during the tax year in an area designated as a combat zone by an executive order of the President of the United States.

Within the last 10 years, individuals are required to be active members of a Maryland fire, rescue, emergency medical services organization or auxiliary organization for at least 36 months, while a member of a U. S. Coast Guard Auxiliary or police auxiliary or reserve volunteers must be active members for at least 72 months during this time.

**Background:** The subtraction modification has undergone multiple changes since Chapter 508 of 1995 created the subtraction modification for qualifying volunteer fire, rescue, or emergency medical services members. Chapter 485 of 1997 established a subtraction modification for volunteer police officers. Chapter 384 of 1998 increased the subtraction modification from \$3,000 to \$3,500. Chapter 375 of 1999 allowed members of the U. S. Coast Guard Auxiliary to qualify for the subtraction modification. Chapter 472 of 2000 reduced over a period of four years the duration of service required to claim

the subtraction modification for members of volunteer fire, rescue, and emergency medical services organizations.

During the 2001 session, four bills were enacted related to the subtraction modification. In honor of the former long-serving Comptroller of the State Treasury, Chapter 442 renamed the subtraction modifications as the Honorable Louis L. Goldstein Volunteer Police, Fire, Rescue, and Emergency Medical Services Personnel Subtraction Modification Program. Chapter 634 clarified the application of the \$3,500 subtraction modification under the Maryland income tax for individuals if they are a qualifying police auxiliary or reserve volunteer for the taxable year. Chapter 436 and 437 extended the subtraction modification to members of an auxiliary organization of a bona fide Maryland fire, rescue, or emergency medical services organization.

Chapter 267 of 2003 allowed an individual to claim the subtraction modification if the individual did not qualify due to being called into service on active duty in the armed forces of the U. S. or was a qualifying civilian or member of the Merchant Marine in support of the armed forces in a designated combat zone.

**State Revenues:** Subtraction modifications could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by \$461,000 in fiscal 2008. This estimate is based on the following facts and assumptions:

- In tax year 2003, approximately 9,100 individuals who were members of a fire, rescue, emergency medical services organization or auxiliary organization claimed a total of \$31.4 million in deductions, for an average deduction of \$3,453. It is estimated that these individuals would be able to claim an additional \$942 in tax year 2007 as a result of the bill.
- In tax year 2003, 175 members of the coast guard auxiliary claimed a total of \$584,000 in deductions, for an average deduction of \$3,046. It is estimated that these individuals would be able to claim an additional \$780 in tax year 2007 as a result of the bill.
- The number of fire and rescue members who could qualify for the subtraction modification increased from 1997 to 2000, when eligibility requirements were unchanged, on average by 2.3% annually.
- Individuals would be able to claim an additional 2% annually due to increased tax liabilities.

- An additional 40 members of the coast guard auxiliary would be able to claim the subtraction due to the reduction in eligibility standard from 72 months to 36 months of membership within the last 10 years.

**Local Revenues:** Local income tax revenues would decrease by \$291,100 in fiscal 2008, \$303,900 in fiscal 2009, \$317,300 in fiscal 2010, \$331,200 in fiscal 2011, and \$345,800 in fiscal 2012.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland State Firemen's Association, Department of Legislative Services

**Fiscal Note History:** First Reader - March 18, 2007  
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