

**Department of Legislative Services**  
2012 Session

**FISCAL AND POLICY NOTE**

Senate Bill 210

(Senator Stone, *et al.*)

Budget and Taxation

**Income Tax - Subtraction Modification - Qualified Maryland Toll Expenses**

This bill creates a subtraction modification against the State income tax for qualified toll expenses incurred by an individual. In order to qualify, the toll expenses must be paid using a Maryland E-ZPass and incurred during “noncommercial” travel throughout the State. Ineligible expenses include any E-ZPass expenses that are (1) not available as a prepaid toll balance; (2) reimbursed by an employer; or (3) claimed as a deduction under the federal income tax. The maximum value of the subtraction modification is limited to \$500 for individuals and \$1,000 for joint returns. The eligible expenses incurred in excess of the limit can be carried forward to the next three tax years.

The bill takes effect July 1, 2012, and applies to tax years 2012 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$4.7 million in FY 2013 due to eligible toll expenses being claimed against the State income tax. Future year revenue decreases reflect forecasted increases in eligible toll expenses. General fund expenditures increase by \$22,000 in FY 2013 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(\$4.7)	(\$6.0)	(\$7.1)	(\$7.5)	(\$7.8)
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$4.7)	(\$6.0)	(\$7.1)	(\$7.5)	(\$7.8)

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

**Local Effect:** Local income tax revenues decrease by \$2.9 million in FY 2013 and by \$4.9 million in FY 2017. Local expenditures are not affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** No similar State subtraction modification exists. Federal income tax law provides that specified toll expenses can be deducted under certain circumstances. Businesses may deduct toll expenses as ordinary and necessary business expenses. In general, individuals cannot deduct the cost of commuting expenses incurred while traveling to work. However, individuals may deduct transportation expenses under certain circumstances, including expenses incurred while traveling to a business meeting away from the regular workplace or transportation expenses incurred while traveling to school.

The federal deduction flows through and typically causes a reduction in State income taxes if the individual itemizes for State income tax purposes.

**Background:** Electronic toll transactions expedite the toll collection process, reduce delays at toll plazas, reduce vehicle idling time (thereby reducing emissions), and allow for the efficient movement of goods and people. E-ZPass can be used at eight facilities in Maryland: (1) Baltimore Harbor Tunnel; (2) Fort McHenry Tunnel; (3) Francis Scott Key Bridge; (4) Thomas J. Hatem Bridge; (5) Harry W. Nice Bridge; (6) Intercounty Connector (ICC)/MD 200; (7) John F. Kennedy Memorial Highway; and (8) William Preston Lane Bay Bridge. The ICC is an all-electronic toll facility – travelers must generally use an E-ZPass to pay tolls. The I-95 Express Toll Lane (ETL) project, an eight-mile expansion of I-95 from the I-895 split east of Baltimore City north to MD 43 in White Marsh, will also only accept E-ZPass payment of tolls.

The Maryland Transportation Authority (MDTA) has exclusive authority relating to the financing, construction, operation, maintenance, and repair of Maryland's toll facilities. MDTA combines toll revenue from all facilities to pay operating costs and the debt service on bonds that are issued to fund major projects.

MDTA recently enacted a phased-in toll increase at every facility in the State. Tolls for noncommercial vehicles were increased on November 1, 2011, and will be increased again on July 1, 2013. MDTA estimates that the average toll paid per vehicle at all facilities will increase from \$2.66 in fiscal 2011 to \$3.67 in fiscal 2013 and to \$5.08 in fiscal 2014.

**Exhibit 1** shows the estimated amount of E-ZPass tolls paid by Maryland individuals in fiscal 2011 by the amount of tolls paid by the account during the year. Exhibit 1 also shows the estimated reduction in State and local income taxes paid that would have occurred in fiscal 2011, had the subtraction modification been available.

**Exhibit 1**  
**Estimated E-ZPass Tolls Paid by Maryland Individuals**  
**Fiscal 2011**

<u>Tolls Paid</u>	<u>Number of Accounts</u>	<u>% of All Accounts</u>	<u>Average Tolls Paid</u>	<u>Average Tax Benefit</u>		
				<u>State</u>	<u>Local</u>	<u>Total</u>
\$50 or less	130,361	27%	\$24	\$1.11	\$0.72	\$1.82
\$51 to \$100	92,383	19%	75	3.47	2.24	5.70
\$101 to \$250	159,819	34%	166	7.74	4.99	12.73
\$251 to \$499	69,955	15%	341	15.86	10.23	26.08
\$500-\$999	20,757	4%	663	30.83	19.89	50.72
<u>Over \$1,000</u>	<u>3,553</u>	<u>1%</u>	<u>1,477</u>	<u>68.68</u>	<u>44.31</u>	<u>112.99</u>
<b>Total</b>	<b>476,828</b>	<b>100%</b>	<b>\$167</b>	<b>\$7.75</b>	<b>\$5.00</b>	<b>\$12.75</b>

Source: Maryland Transportation Authority; Department of Legislative Services

**State Revenues:** Subtraction modifications may be claimed beginning in tax year 2012. It is assumed that most taxpayers will not adjust withholdings and estimated payments. As a result, fiscal 2013 revenues will decrease by \$4.7 million. This estimate is based on the following assumptions:

- In fiscal 2011, net E-ZPass revenues totaled \$184 million or about 60% of total toll revenues.
- Based on data provided by MDTA, it is estimated that Maryland residents paid about one-half of all E-ZPass revenues in fiscal 2011.
- Future year E-ZPass toll expenses increase based on *MDTA's FY 2012-2017 Financial Forecast*.
- The share of tolls paid by E-ZPass at existing facilities except for the ICC increases by 1.5% annually.
- All toll revenues from the ICC and I-95 ETL will be paid by EZPass.
- The maximum value of the subtraction modification reduces the total amount claimed in each year by between 4.3% and 6.2%. It is assumed that these excess amounts are carried forward and claimed in the next three tax years.
- Twenty percent of E-ZPass tolls paid in each year do not qualify as eligible expenses, are claimed on a nontaxable return, or are otherwise not claimed.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$22,000 in fiscal 2013 to add the subtraction modification to the personal income tax return. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

**Local Revenues:** Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Accordingly, local revenues decrease by \$2.9 million in fiscal 2013, \$3.8 million in fiscal 2014, \$4.5 million in fiscal 2015, \$4.7 million in fiscal 2016, and \$4.9 million in fiscal 2017.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 275 (Delegate Weir, *et al.*) - Ways and Means.

**Information Source(s):** Maryland Department of Transportation, Maryland Transportation Authority, Department of Legislative Services

**Fiscal Note History:** First Reader - February 7, 2012  
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