

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

House Bill 610 (Delegate Kaiser, *et al.*)
 Ways and Means

Maryland Income Tax Refunds - Warrant Intercept Program

This bill expands the warrant intercept program for Anne Arundel County to all other counties and Baltimore City. It requires an official of the federal, State, or local government charged with serving a criminal arrest warrant to certify to the Comptroller that an individual has an outstanding warrant and to request that the Comptroller withhold the individual’s income tax refund. The bill also repeals the termination date of the Anne Arundel County program.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: State revenues increase by \$1.4 million in FY 2015 due to the Comptroller intercepting the income tax refunds of specified individuals with outstanding warrants. General fund expenditures increase by \$185,400 in FY 2015 due to implementation costs at the Comptroller’s Office. Future year estimates reflect projected increases in expenditures, the estimated amount of returns intercepted, and extension of the Anne Arundel County program.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	\$1.4	\$0.9	\$0.3	\$0.3	\$0.4
GF Expenditure	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Net Effect	\$1.2	\$0.8	\$0.1	\$0.1	\$0.2

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

Local Effect: Local income tax revenues increase by \$933,800 in FY 2015 and by \$273,400 in FY 2019. County expenditures may increase beginning in FY 2015 in order to implement the bill. In addition, county warrant service expenditures may decrease beginning in FY 2015.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: Chapter 451 of 2012 established the Anne Arundel County warrant intercept program. It authorizes an official of the federal, State, or local government charged with serving a criminal arrest warrant (warrant officials) to certify to the Comptroller that an individual who is either a Maryland resident or who receives income from Maryland has an outstanding warrant and to request that the Comptroller withhold the individual's income tax refund. For any individual for which a certification of an outstanding warrant is received, the Comptroller is required to withhold the individual's income tax refund and notify the individual of the certification of an outstanding warrant. The Comptroller may not withhold a refund if the individual is an active duty member of the U.S. Armed Forces or files a joint income tax return.

The current program applies only to individuals who are residents of Anne Arundel County or have an outstanding warrant from Anne Arundel County. Chapter 213 of 2013 extended the termination date of the Anne Arundel County warrant intercept program by five years to September 30, 2018.

The bill will extend the program statewide and require, instead of authorize, warrant officials to certify to the Comptroller that an individual who is either a Maryland resident or who receives income from Maryland has an outstanding warrant and to request that the Comptroller withhold the individual's income tax refund. The bill also repeals the termination date for the Anne Arundel County program, and the statewide program would not be subject to a termination date. The Comptroller's Office, in consultation with the Maryland State Police and local government officials, is required to evaluate the program and report its findings to the General Assembly by December 1, 2015.

Background: The Comptroller's Office reported in December 2013 that there were 8,109 outstanding warrants in Anne Arundel County. Of the outstanding warrants, 5,128 cannot be linked to the tax system because of missing identifying information (principally Social Security numbers). As of November 1, 2013, the Comptroller's Office has released a total of \$271,013 in refunds from 328 individuals whose warrants were satisfied. A total of 450 refunds totaling \$271,013 were being withheld from individuals with outstanding warrants. The Comptroller's Office estimates that there are about 200,000 outstanding warrants statewide.

State Fiscal Effect: The bill extends the Anne Arundel County warrant intercept program to all other counties and Baltimore City. Based on the requirements of the bill,

the estimated number of individuals who file income tax returns and are owed refunds, the number of warrants that will be matched to an income tax refund, and other factors, general fund revenues will increase by \$1.4 million in fiscal 2015, as shown in **Exhibit 1**. Revenue increases will be less in future years as individuals satisfy warrants and the Comptroller's Office releases the income tax return of the individual. It is assumed that 80% of individuals satisfy a warrant within three years, with the remaining amount retained by the Comptroller's Office. Fiscal 2019 revenue increases reflect extension of the Anne Arundel County program.

Exhibit 1
Fiscal Impact of Legislation
Fiscal 2015-2019

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Revenues					
Income Taxes Withheld	\$1,430,800	\$932,900	\$302,000	\$302,000	\$419,000
Expenditures					
Comptroller's Office	185,400	177,700	186,100	195,000	204,200
Net Impact	\$1,245,400	\$755,200	\$115,900	\$107,000	\$214,800

General fund expenditures increase by \$185,400 in fiscal 2015, which accounts for the bill's July 1, 2014 effective date. This estimate reflects the cost of hiring three revenue specialists at the Comptroller's Office to implement the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$170,563
Operating Expenses	<u>14,850</u>
Total FY 2015 Expenditures	\$185,413

Future year expenditure estimates reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Fiscal Effect: Local income tax revenues increase by \$933,800 in fiscal 2015, \$608,900 in fiscal 2016, \$197,100 in fiscal 2017, \$197,100 in fiscal 2018, and \$273,400 in fiscal 2019. County expenditures may increase beginning in fiscal 2015 in order to implement the bill. In addition, county warrant service expenditures may decrease beginning in fiscal 2015.

Baltimore City advises that it will need to hire two administrative clerks in order to implement the bill. Baltimore City expenditures will increase by \$99,300 in fiscal 2015, \$136,400 in fiscal 2016, \$142,800 in fiscal 2017, \$149,600 in fiscal 2018, and \$156,600 in fiscal 2019. Baltimore City indicates that the bill will decrease expenditures related to the processing and serving of warrants conducted by its warrant squad. On average, it takes about two hours to process and serve a warrant, and longer if the individual is apprehended. Baltimore City cannot quantify these savings, but anticipates the expenditure savings will be greater than the expenditure increase from hiring two personnel to implement the bill.

Harford, Montgomery, Washington, and Wicomico counties advise that the bill can be implemented with minimal or no additional expenditures.

Additional Information

Prior Introductions: None.

Cross File: SB 653 (Senator Astle) - Budget and Taxation.

Information Source(s): Baltimore City; Harford, Montgomery, Washington, and Wicomico counties; Maryland Association of Counties; Comptroller's Office; Department of Legislative Services

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