

Department of Legislative Services  
 Maryland General Assembly  
 2016 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1097 (Eastern Shore Delegation)  
 Ways and Means

Maryland Income Tax Refunds - Eastern Shore Counties - Warrant Intercept Program

This bill expands the warrant intercept program to the Eastern Shore counties. The bill authorizes 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 applies only to individuals who are Eastern Shore residents or have an outstanding warrant from an Eastern Shore law enforcement agency.

Fiscal Summary

**State Effect:** State revenues increase by \$61,100 in FY 2017 due to the Comptroller intercepting the income tax refunds of specified individuals with outstanding warrants. General fund expenditures increase by \$51,400 in FY 2017 due to implementation costs at the Comptroller’s Office. Future year estimates reflect annualization and the estimated number of warrant intercepts.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	\$61,100	\$47,400	\$23,100	\$10,300	\$4,100
GF Expenditure	\$51,400	\$63,300	\$65,900	\$68,600	\$71,400
Net Effect	\$9,700	(\$15,900)	(\$42,800)	(\$58,300)	(\$67,300)

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

**Local Effect:** Local income tax revenues increase minimally beginning in FY 2017. Local expenditures are not affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** The warrant intercept program authorizes an official of the federal, State, or local government charged with serving a criminal arrest warrant 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 program applies only to individuals who are residents of or have an outstanding warrant from Anne Arundel County, Washington County, or Baltimore City. The Anne Arundel County warrant intercept program terminates September 30, 2018, and the Washington County and Baltimore City programs terminate September 30, 2019.

**Background:** Chapter 451 of 2012 established the warrant intercept program for 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. Chapter 590 of 2014 extended the program to Washington County and Chapter 594 of 2014 extended the program to Baltimore City.

The Comptroller's Office is required to annually report specified information about the program. In the first three years of the Anne Arundel County program the Comptroller's Office reported that it had intercepted in each year an average of \$318,700 in State and local refunds from 460 individuals. Of the amount held, about 71% of the refunds were released within the same year as the individuals satisfied the outstanding warrants. An additional 12% of the refunds were released in the next year and 6% in the following year. In the 2015 annual report the Comptroller notes that the extension of the program to Washington County is complete but that the program's implementation in Baltimore City is not fully operational. In 2015 the Comptroller intercepted a minimal number of refunds from Baltimore City and intercepted \$41,800 in refunds from 70 individuals from Washington County. The Comptroller's Office notes that a significant portion of the outstanding warrants cannot be linked to the tax system because of missing identifying information (principally Social Security numbers).

**State Fiscal Effect:** The bill extends the warrant intercept program to the nine Eastern Shore counties – Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester. The Comptroller's Office estimates that there were about 200,000 outstanding warrants statewide, of which 20,800 were from the Eastern Shore counties. 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 the amount of refunds held in the Anne Arundel County and

Washington County programs, general fund revenues will increase by \$61,100 in fiscal 2017. Revenue increases are less in future years as individuals satisfy warrants and the Comptroller's Office releases income tax refunds.

General fund expenditures increase by \$51,400 in fiscal 2017, which accounts for the bill's October 1, 2016 effective date. This estimate reflects the cost of hiring one revenue specialist at the Comptroller's Office to implement the bill. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$46,602
Operating Expenses	<u>4,815</u>
<b>Total FY 2017 Expenditures</b>	<b>\$51,417</b>

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

**Local Fiscal Effect:** Based on program implementation in Anne Arundel County, it is assumed that any additional costs to implement the program can be absorbed within existing budgeted resources. Local income tax revenues increase by \$38,300 in fiscal 2017, \$29,700 in fiscal 2018, \$14,400 in fiscal 2019, \$6,500 in fiscal 2020, and \$2,600 in fiscal 2021. Most of these revenues are for the Eastern Shore counties.

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### Additional Information

**Prior Introductions:** SB 855 of 2015 received a favorable with amendments report from the Senate Budget and Taxation Committee, passed the Senate, and received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, HB 841, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None listed, although SB 729 (Senator Hershey, *et al.* – Budget and Taxation) is identical.

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

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