

Department of Legislative Services
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1235
Ways and Means

(Delegate Long, *et al.*)

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 (1) be paid using a Maryland E-ZPass; (2) total at least \$300 in the taxable year; and (3) be incurred during noncommercial or two-axle commercial 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, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$6.6 million in FY 2018 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 \$53,000 in FY 2018 due to one-time computer programming expenses at the Comptroller’s Office.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$6.6)	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$6.6)	(\$6.6)	(\$6.6)	(\$6.7)	(\$6.7)

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

Local Effect: Local income tax revenues decrease by \$4.3 million in FY 2018 and by \$4.4 million in FY 2022. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: No similar State income tax 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 and local 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 nine 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; (8) William Preston Lane Bay Bridge; and (9) I-95 Express Toll Lanes.

The Maryland Transportation Authority (MDTA) increased toll rates systemwide on July 1, 2013. The amount of the increase varied across facilities and depended on a number of factors, including whether the individual had an E-ZPass account and the number of axles of the vehicle. Effective July 1, 2015, MDTA reduced toll rates systemwide and reduced tolls by other actions, including an increase in certain discounts for E-ZPass customers.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2017. As a result, fiscal 2018 revenues will decrease by \$6.6 million. This estimate is based on the following facts and assumptions:

- in fiscal 2016, E-ZPass revenues totaled \$480.3 million;
- future year toll expenses increase based on the projected increase in total vehicle miles traveled at all facilities; and
- about 30% of E-ZPass tolls paid in each year are deducted on a resident taxable return and are eligible for the subtraction modification.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$53,000 in fiscal 2018 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 modifications claimed. Accordingly, local revenues decrease by \$4.3 million in fiscal 2018 and \$4.4 million by fiscal 2022.

Additional Information

Prior Introductions: SB 655 of 2016 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 376 of 2015 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 1085, received a hearing in the House Ways and Means Committee, but no further action was taken. Similar legislation was introduced in the 2014 session.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland Department of Transportation; Department of Legislative Services

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