

**Department of Legislative Services**  
Maryland General Assembly  
2018 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 1269  
(Senator Mathias)  
Budget and Taxation

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**Income Tax - Subtraction Modification - Volunteer Fire, Rescue, and Emergency Medical Services Members**

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This bill increases to \$7,000 the value of the State income tax subtraction modification for qualifying volunteer fire, rescue, or emergency medical services personnel. The increase in the maximum value is phased in over three years beginning in tax year 2020. **The bill takes effect July 1, 2018.**

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**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$508,000 in FY 2021 due to additional subtraction modification claims. Future year revenue decreases reflect the estimated number of eligible taxpayers and the phase in of the subtraction modification as specified by the bill. Expenditures are not affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	\$0	\$0	(\$508,000)	(\$762,000)	(\$1,016,000)
Expenditure	0	0	0	0	0
Net Effect	\$0	\$0	(\$508,000)	(\$762,000)	(\$1,016,000)

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

**Local Effect:** Local revenues decrease by \$332,000 in FY 2021 and by \$663,000 in FY 2023. Local expenditures are not affected.

**Small Business Effect:** None.

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## Analysis

### Current Law/Background:

#### *Federal Tax Treatment of Length of Service Award Program (LOSAP)*

Volunteer fire, rescue, or emergency medical services personnel or auxiliary LOSAP contributions can qualify for federal tax benefits under Section 457 of the Internal Revenue Code. Prior to 2018, Section 457 provided that a LOSAP may not provide for an aggregate amount of length of service award exceeding \$3,000 with respect to any year of service. The Tax Cuts and Jobs Act of 2017 increases the maximum allowable annual LOSAP contribution from \$3,000 to \$6,000, indexed for inflation.

#### *State Tax Benefit*

The Honorable Louis L. Goldstein Volunteer Fire, Rescue, and Emergency Medical Services Personnel Subtraction Modification Program allows a subtraction modification for individuals who serve in a volunteer capacity and meet specified requirements 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 member of the Maryland Defense Force; (4) a member of the U.S. Coast Guard Auxiliary; or (5) a member of the Maryland Civil Air Patrol.

The individual must (1) qualify for active status during the tax year or (2) have maintained active status for at least 25 years under a volunteer fire, rescue, or emergency medical services personnel or auxiliary LOSAP. In addition, Chapter 267 of 2003 allowed an individual to claim the subtraction modification if the individual did not qualify for active status due to being called into service on active duty in the U.S. Armed Forces or was a qualifying civilian or member of the Merchant Marines in support of the U.S. Armed Forces in a designated combat zone.

Chapters 371 and 372 of 2014 increased the value of the State income tax subtraction modification for qualifying volunteer fire, rescue, or emergency medical services personnel from \$3,500 to \$5,000, phased in over six years beginning in tax year 2014. The amount of the subtraction is equal to (1) \$3,750 in tax year 2014; (2) \$4,000 in tax year 2015; (3) \$4,250 in tax year 2016; (4) \$4,500 in tax year 2017; (5) \$4,750 in tax year 2018; and (6) \$5,000 beginning in tax year 2019.

**State Revenues:** Additional subtraction modifications can be claimed beginning in tax year 2020. The amount that may be claimed is equal to (1) \$6,000 in tax year 2020; (2) \$6,500 in tax year 2021; and (3) \$7,000 beginning in tax year 2022. According to the

Comptroller's Office, about 10,700 taxpayers claimed the subtraction modification in tax year 2016. As a result, general fund revenues will decrease by \$508,000 in fiscal 2021. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

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**Exhibit 1**  
**State and Local Revenue Impacts**  
**Fiscal 2019-2023**

	<b><u>FY 2019</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>
State	\$0	\$0	(\$508,000)	(\$762,000)	(\$1,016,000)
Local	0	0	(332,000)	(498,000)	(663,000)
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$840,000)</b>	<b>(\$1,260,000)</b>	<b>(\$1,679,000)</b>

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**Local Revenues:** Local income tax revenues will decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues will decrease by \$332,000 in fiscal 2021 and by \$663,000 in fiscal 2023, as shown in Exhibit 1.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1069 (Delegate Buckel, *et al.*) - Ways and Means.

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

**Fiscal Note History:** First Reader - April 4, 2018  
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