

Department of Legislative Services
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 537
Ways and Means

(Delegate Brooks, *et al.*)

Income Tax - Subtraction Modification for Veterans

This bill creates a subtraction modification against the State income tax equal to \$3,000 for an individual who is a veteran of the U.S. Uniformed Services. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$31.6 million in FY 2020 due to subtraction modifications claimed against the State income tax. Future year revenue decreases reflect the projected number of eligible taxpayers. General fund expenditures increase by \$55,000 in FY 2020 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

| (\$ in millions) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|------------------|----------|----------|----------|----------|----------|
| GF Revenue | (\$31.6) | (\$31.2) | (\$30.9) | (\$30.5) | (\$30.2) |
| GF Expenditure | \$0.1 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$31.7) | (\$31.2) | (\$30.9) | (\$30.5) | (\$30.2) |

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

Local Effect: Local revenues decrease by \$20.4 million in FY 2020 and by \$19.5 million in FY 2024. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax subtraction modification exists although numerous State incentives and programs are available to veterans as discussed below.

Background:

Veteran Population in Maryland

The U.S. Census Bureau estimates that in calendar 2017 there were 380,500 veterans residing in Maryland, equal to about 8.2% of the total adult population. Compared to the nonveteran population, veterans have similar education levels, higher economic well-being (higher incomes and less unemployment and poverty levels), and higher rates of disability. As in the rest of the nation, the veteran population has decreased over time and is projected to continue to decrease in the next few years.

State Benefits for Veterans

State tax benefits include a retirement income subtraction for military retirement income, a State income tax credit for wages paid to qualified veterans, real property tax credits for disabled veterans and spouses, a sales tax exemption for purchases made by veterans organizations, and exemptions from the registration fee and titling tax imposed on certain vehicles. In addition, the State provides additional benefits through licensing, business loan, scholarship, mortgage loan, and hiring preference programs. A description of these benefits and information on federal programs and data on the Maryland veteran population can be found in the Department of Legislative Services report *Overview of Services for Veterans*. The report can be found [here](#).

State Revenues: Subtraction modifications may be claimed by eligible veterans beginning in tax year 2019. A veteran is defined as an individual who (1) is honorably discharged or released under honorable circumstances from active military, naval, or air service as defined in 38 U.S.C. § 101. Based on the requirements of the bill and estimated taxpayer participation rates, it is estimated that 224,600 individuals will claim the subtraction modification on a taxable return. As a result, general fund revenues will decrease by an estimated \$31.6 million in fiscal 2020. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts
(\$ in Millions)

| | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| State | (\$31.6) | (\$31.2) | (\$30.9) | (\$30.5) | (\$30.2) |
| Local | (20.4) | (20.2) | (20.0) | (19.7) | (19.5) |
| Total | (\$52.0) | (\$51.4) | (\$50.9) | (\$50.2) | (\$49.7) |

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$55,000 in fiscal 2020 to add the subtraction modification to personal income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

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 \$20.4 million in fiscal 2020 and by \$19.5 million in fiscal 2024, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Census Bureau; Comptroller's Office; U.S. Department of Veterans Affairs; Department of Legislative Services

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