

Department of Legislative Services
2014 Session

FISCAL AND POLICY NOTE

House Bill 1353
Ways and Means

(Delegate Glass, *et al.*)

Income Tax - Subtraction Modification - Gift Cards Purchased for Emergency Personnel

This bill creates a subtraction modification against the State income tax for 100% of the value of a gift card that is provided to a qualified recipient who is a paid or volunteer paramedic, emergency medical technician, firefighter, State or local police officer, or emergency rescue services provider. The total amount subtracted by a qualified recipient in a tax year may not exceed \$100. The Comptroller is required to adopt regulations to implement the bill.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues may decrease significantly beginning in FY 2015 due to subtraction modifications claimed against the State income tax. General fund expenditures increase by \$48,000 in FY 2015 due to one-time implementation costs at the Comptroller's Office.

Local Effect: Local income tax revenues may decrease significantly beginning in FY 2015. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: No similar State income tax subtraction modification exists. Under the federal income tax, taxpayers who itemize may be able to deduct the value of cash and property donated to qualified organizations if certain criteria are met. Any amount deducted under federal law flows through for Maryland income tax

purposes. In tax year 2011, 1.1 million Maryland taxpayers deducted a total of \$4.9 billion in eligible charitable contributions.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2014. Accordingly, general fund revenues may decrease significantly beginning in fiscal 2015. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of eligible gift cards provided to qualified recipients.

General fund revenues will decrease by \$4.75 for each qualifying gift card. **Exhibit 1** lists the total annual estimated revenue loss depending on the number of taxpayers who deduct the maximum \$100.

Exhibit 1
Projected Impact on State and Local Revenues

<u>Number of Qualifying Taxpayers</u>	<u>State</u>	<u>Local</u>
5,500	(\$26,100)	(\$16,500)
11,000	(52,250)	(33,000)
55,000	(261,250)	(165,000)

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$48,000 in fiscal 2015 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. The Comptroller's Office may also incur additional costs in order to verify subtraction modification claims.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Exhibit 1 lists the potential local income tax revenue impact beginning in fiscal 2015.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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