

Department of Legislative Services
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 238

(Senator Robinson)

Budget and Taxation

Income Tax - Subtraction Modification - Qualified Pet Expenses

This bill creates a subtraction modification against the State income tax for up to \$3,000 in qualified pet expenses. A qualified pet is a cat or dog that resides with the taxpayer and is (1) vaccinated against the rabies virus; (2) identifiable from an implanted microchip; and (3) registered or licensed as required by a local jurisdiction. Qualified expenses include the qualified pet’s licensing, veterinary care, and vaccination costs. The Comptroller is required to adopt regulations to implement the bill and specify the documentation necessary to claim the subtraction. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$6.7 million beginning in FY 2019 due to eligible pet expenses being claimed against the State income tax. Future year revenue decreases reflect the projected growth in eligible taxpayers and expenses. General fund expenditures increase by \$54,000 in FY 2019 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$6.7)	(\$7.0)	(\$7.4)	(\$7.8)	(\$8.2)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$6.7)	(\$7.0)	(\$7.4)	(\$7.8)	(\$8.2)

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

Local Effect: Local revenues decrease by \$4.4 million in FY 2019 and by \$5.3 million in FY 2023. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax subtraction modification exists.

For federal income tax purposes, taxpayers who itemize can deduct certain expenses related to owning and caring for a certified service animal. This reduces federal adjusted gross income, which in turn will also generally reduce State and local income taxes by flowing through to Maryland adjusted gross income.

A pet owner must have any dog, cat, or ferret that is at least age four months vaccinated against the rabies virus. A county may not register or license a dog, cat, or ferret unless the owner submits proof that the animal is adequately vaccinated against rabies with the application for licensure or registration.

Maryland counties typically require that once a dog or cat reaches a certain age it must be registered or licensed with the county.

Background: A pet microchip implant is a permanent method of electronic identification. Each implanted chip has a unique number that is detected using a microchip scanner. The microchip number is recorded on a microchip database registry with details about the animal and owner and can help owners locate lost pets.

The rabies virus is a zoonotic disease that is transmitted from animals to humans. Rabies infects domestic and wild animals and is transmitted to people through close contact with the infected animals' saliva via bites or scratches. Worldwide, about 60,000 people die of rabies annually, mostly in Asia and Africa. Although deaths from the disease are rare in the United States, the rabies virus is almost always fatal to humans who do not promptly seek medical treatment after exposure. The vaccination of domestic animals has largely eliminated these animals as a reservoir of the virus – whereas in 1960 most reported cases were domestic animals they now comprise about 8% of all cases. Bats are now the most frequently reported cases (31% of all animal cases), followed by raccoons (29%), skunks (25%), and foxes (6%). In calendar 2015, there were 5,508 cases of rabies in animals and 3 human rabies cases.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2018. As a result, general fund revenues will decrease by an estimated \$6.7 million in fiscal 2019. **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 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
State	(\$6.7)	(\$7.0)	(\$7.4)	(\$7.8)	(\$8.2)
Local	(4.4)	(4.6)	(4.8)	(5.1)	(5.3)
Total	(\$11.1)	(\$11.6)	(\$12.2)	(\$12.9)	(\$13.5)

This estimate is based on the following facts and assumptions:

- 2.6 million taxable returns in tax year 2018;
- 53% of all Maryland households have a pet (American Veterinary Medical Association);
- 15% of households with a pet claim the subtraction modification;
- 1.5 eligible pets in each household;
- eligible households claim a subtraction modification of \$466 for each pet in tax year 2018 (*2017-2018 National Pet Owners Survey*); and
- future year revenue losses based on the projected increase in households and eligible costs as specified by the bill.

Revenue losses will be greater to the extent that a higher percentage of eligible households claim the subtraction modification. If all households with an eligible pet claim the subtraction modification, revenues will decrease by an estimated \$44.6 million in fiscal 2019.

State Expenditures: The Comptroller’s Office reports that it will incur a one-time general fund expenditure increase of \$54,000 in fiscal 2019 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 \$4.4 million in fiscal 2019 and by \$5.3 million in fiscal 2023, as shown in Exhibit 1. The local revenue loss may be mitigated to the extent that agencies collect additional dog and cat licensing fees as a result of the proposed subtraction modification.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): American Pet Products Association; American Veterinary Medical Association; Centers for Disease Control and Prevention; Comptroller's Office; World Health Organization; Department of Legislative Services

Fiscal Note History: First Reader - January 26, 2018
nb/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510