

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 511 (Delegate Valentino-Smith)
 Ways and Means

Income Tax - Personal Exemption - Disabled Individuals

This bill expands the existing personal exemption under the State income tax for individuals who are blind by extending eligibility to individuals who have a permanent physical disability. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$3.4 million in FY 2022 due to additional exemptions claimed against the personal income tax. Future year estimates reflect projected number of exemptions claimed. Expenditures are not affected.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$3.4)	(\$3.5)	(\$3.5)	(\$3.6)	(\$3.7)
Expenditure	0	0	0	0	0
Net Effect	(\$3.4)	(\$3.5)	(\$3.5)	(\$3.6)	(\$3.7)

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

Local Effect: Local income tax revenues decrease by \$2.1 million in FY 2022 and by \$2.3 million in FY 2026. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: For State income tax purposes an individual other than a fiduciary is entitled to claim a personal exemption for the taxpayer, the taxpayer’s spouse, and eligible dependents. Nonresidents and part-time residents are required to prorate exemptions based

on the percentage of income subject to Maryland tax. These exemptions are reduced once the taxpayer's federal adjusted gross income exceeds \$100,000 (\$150,000 if filing Married Filing Jointly, Head of Household, or Qualifying Widow(er) with Dependent Child).

Individuals who are blind may claim an additional personal exemption of \$1,000. In addition, individuals who are age 65 years or older can also claim an additional personal exemption of \$1,000. These exemptions are not subject to the income phase-out applicable to the regular personal exemption. In recent tax years, the total number of individuals claiming the additional exemption for individuals who are blind has ranged from 7,200 to 8,000.

State Revenues: The bill expands the existing personal exemption for blind individuals by extending eligibility to individuals who have a permanent physical disability beginning in tax year 2021. As a result, general fund revenues will decrease by \$3.4 million in fiscal 2022. **Exhibit 1** shows the projected State and local revenue loss resulting from the bill.

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

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State	(\$3.4)	(\$3.5)	(\$3.5)	(\$3.6)	(\$3.7)
Local	(2.1)	(2.2)	(2.2)	(2.3)	(2.3)
Total	(\$5.6)	(\$5.7)	(\$5.8)	(\$5.9)	(\$6.0)

This estimate is based on the estimated number of individuals who have a permanent disability and could qualify for the expanded personal exemption under the bill. This number is reduced based on the estimated percentage of all individuals who are blind and claim the additional exemption, adjusted for differences in labor force participation and employment.

The U.S. Census Bureau estimates that in calendar 2017 about 586,300 Maryland adults had a disability, about 12.9% of the total adult population. These physical and mental disabilities classifications included hearing, cognitive, ambulatory, self-care, and independent living. The unemployment rate of individuals with disabilities remains significantly higher than that of individuals without disabilities. About 39% of Maryland adult individuals with disabilities are employed (compared to 78% for individuals without

disabilities) while a little more than one-half are not in the labor force (compared to 16% for individuals without disabilities). The median earnings of individuals with disabilities was about 30% lower than individuals without disabilities.

Local Revenues: Local income tax revenues decrease as a result of additional personal exemption amounts claimed. Local revenues will decrease by \$2.1 million in fiscal 2022 and by \$2.3 million in fiscal 2026, as shown in Exhibit 1.

Additional Information

Prior Introductions: SB 657 of 2020 and SB 412 of 2019 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. The cross files, HB 806 of 2020 and HB 580 of 2019, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

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

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