

Department of Legislative Services
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 124
Ways and Means

(Delegate Brooks)

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, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$34.3 million in FY 2023 due to subtraction modifications claimed against the State income tax. Future year revenue decreases reflect projected number of eligible taxpayers. General fund expenditures increase by \$65,000 in FY 2023 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$34.3)	(\$33.7)	(\$33.2)	(\$32.6)	(\$32.1)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$34.4)	(\$33.7)	(\$33.2)	(\$32.6)	(\$32.1)

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

Local Effect: Local revenues decrease by \$22.6 million in FY 2023 and by \$21.1 million in FY 2027. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax subtraction modification exists, although State incentives and programs are available to veterans. State tax benefits include a retirement income subtraction for certain military retirement income, 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.

State Revenues: Subtraction modifications may be claimed by eligible veterans beginning in tax year 2022. As a result, general fund revenues will decrease by an estimated \$34.3 million in fiscal 2023. **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 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State	(\$34.3)	(\$33.7)	(\$33.2)	(\$32.6)	(\$32.1)
Local	(22.6)	(22.2)	(21.8)	(21.4)	(21.1)
Total	(\$56.9)	(\$55.9)	(\$55.0)	(\$54.0)	(\$53.2)

According to the U.S. Department of Veterans Affairs, in calendar 2018 there were 399,100 veterans residing in Maryland. It is estimated that two-thirds of these individuals claim the subtraction modification on a taxable return. Future years reflect the U.S. Veterans Affairs projected change in the Maryland veteran population.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$65,000 in fiscal 2023 to add the subtraction modification to the income tax forms. This includes data processing changes to the 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 \$22.6 million in fiscal 2023 and by \$21.1 million in fiscal 2027, as shown in Exhibit 1.

Additional Information

Prior Introductions: HB 537 of 2019 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Veterans Affairs;
Department of Legislative Services

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