Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 611 (Senator Guzzone)
Budget and Taxation

Income Tax - Subtraction Modification - Catastrophe Savings Accounts

This bill allows a taxpayer to designate an account with a financial institution as a catastrophe savings account. An eligible account holder may claim a subtraction modification against the State income tax for (1) the amount contributed during the taxable year to a designated account and (2) the interest earned from the designated account during the tax year. Account distributions may be used to pay for qualified expenses related to a "catastrophic weather event." **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2020 due to eligible contributions and interest earnings claimed against the State income tax. General fund expenditures increase by $86,700 in FY 2020 due to implementation costs at the Comptroller's Office.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	$86,700	$53,700	$55,500	$57,400	$59,400
Net Effect	($86,700)	($53,700)	($55,500)	($57,400)	($59,400)

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

Local Effect: Local revenues decrease beginning in FY 2020 due to subtraction modifications being claimed against the personal income tax. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The bill allows a taxpayer to designate an account with a financial institution as a catastrophe savings account (designated account). A taxpayer may make this designation for the purpose of covering (1) the deductible of an insurance policy that covers catastrophic weather expenses related to the account holder's designated dwelling or (2) self-insured losses incurred as a result of damage to the designated dwelling from a catastrophic weather event. A catastrophic weather event includes a blizzard, hurricane, a flood, windstorm, or any weather event that results in the declaration of a state of emergency by the Governor or federal government. A designated dwelling is any single-family dwelling located in the State and owned by the account holder. A taxpayer may only have one designated account at any point in time.

The amount of funds in the account is limited to specified amounts based on the account holder's home insurance deductible or fair market value of the house if the account holder self-insures. Subject to specified exceptions, an account holder who withdraws funds from the account for an ineligible purpose must add-back to Maryland adjusted gross income the amount of the distribution and is subject to a penalty.

A taxpayer claiming the subtraction modification must submit specified information to the Comptroller. The Comptroller must adopt regulations to implement the bill.

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

For federal income tax purposes individuals who itemize may generally deduct casualty and theft losses related to a home, household items, and vehicles. The losses must be due to a federally declared disaster area. Any amount deducted under federal law flows through for Maryland income tax purposes, thereby reducing State and local income taxes.

Background: Catastrophe savings accounts provide financial incentives for individuals to set aside funds for weather-related losses. In addition, individuals may contribute to the account after the loss has occurred and claim tax benefits. Several states including Alabama, Mississippi, and South Carolina allow individuals to open these savings accounts. According to published reports, a limited number of individuals have opened accounts.

State Revenues: Subtraction modifications can be claimed beginning in tax year 2019. As a result, general fund revenues will decrease beginning in fiscal 2020. The amount of the revenue loss depends on the number of designated accounts established, the amount contributed to each account, and the eligible interest that can be exempted from the State income tax. Contributions and earnings will generally be subject to federal taxation.

Based on similar programs in other states, revenue losses are not expected to be significant in the near term.

State Expenditures: The Comptroller's Office advises that it will incur additional costs beginning in fiscal 2020 as a result of hiring one revenue examiner and incurring programming expenses. As a result, general fund expenditures increase by $86,700 in fiscal 2020, which reflects a January 1, 2020 hiring date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$26,474
Operating Expenses	5,203
Programming Expenditures	55,000
Total FY 2020 Expenditures	**$86,677**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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sb/hlb

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