

Department of Legislative Services
2012 Session

FISCAL AND POLICY NOTE
Revised

House Bill 975

(Delegate Kach, *et al.*)

Ways and Means

Budget and Taxation

Income Tax - Subtraction Modification - Forest Conservation and Management Program Expenses

This bill creates a subtraction modification against the State income tax for qualified forest conservation program expenses incurred by an individual for an approved application to the Forest Conservation and Management Program within the Department of Natural Resources (DNR). Eligible expenses include the costs of hiring a professional land surveyor and preparing the land management program for a conserved property.

The subtraction modification that may be claimed may not exceed \$500.

The bill takes effect July 1, 2012, and applies to tax year 2012 and beyond.

Fiscal Summary

State Effect: General fund revenues will decrease minimally beginning in FY 2013 due to subtraction modifications being claimed against the income tax. General fund expenditures increase by \$22,000 in FY 2013 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$22,000	\$0	\$0	\$0	\$0
Net Effect	(\$22,000)	\$0	\$0	\$0	\$0

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

Local Effect: Local income tax revenues decrease minimally beginning in FY 2013. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: No similar State subtraction modification exists.

Background: The Forest Conservation and Management Program within DNR allows qualifying landowners a reduction in the assessment of forest land to \$125 per acre in return for following a written forest management plan. The agreement is recorded in the land records of the county in which the property is located and is in effect for a minimum of 15 years. If the agreement is terminated by failure to follow the plan or the property is sold and the new owner does not continue the agreement, an assessment is levied for the reduction in taxes received since the beginning of the agreement. The property is inspected every five years by Maryland Forest Service foresters to ensure compliance.

DNR advises that the initial fee for enrollment in the program is \$50 or 0.22% of the assessed value of the property, whichever is greater. The inspection fee (every five years) is the greater of \$100 or 20% of the initial entry fee. The cost of the management plan ranges from \$100 to \$300 depending on acreage if the plan is prepared by the Maryland Forest Service. The cost of plans prepared by a licensed consulting forester is typically higher.

Forest landowners may also qualify for a reduction in their assessment on forest land by submitting a copy of the forest management plan to the county tax office. A landowner can receive a reduced assessment of \$187.50 per acre. The landowner must provide a letter to the tax office every three years from a licensed forester verifying compliance with the management plan. Failure to comply will result in a reassessment of the property but does not result in an assessment for back taxes. The only cost to this option is the preparation of the management plan.

DNR typically enters into about 25 Forest Conservation and Management Program agreements annually.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2012. Based on the typical number of eligible agreements entered into in recent years and the maximum value of the benefit, general fund revenues will decrease by less than \$1,000 annually.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$22,000 in fiscal 2013 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.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Accordingly, local government revenues will decrease by less than \$500 annually beginning in fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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