SB 31

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 31 (Senator Ferguson)
Budget and Taxation

Income Tax Subtraction Modification for Tuition Paid for Private Elementary and Secondary Education

This bill creates an income tax subtraction modification for tuition paid to private institutions of primary or secondary education in the State, including those operated by religious organizations. The subtraction is limited to $3,000 per student.

This bill is effective July 1, 1996 and applies to all tax years beginning after December 31, 1995.

Fiscal Summary

State Effect: General fund revenues could decline by $22.2 million in FY 1997. Out-year estimates reflect growth in enrollment and increases in tuition. Expenditures could be affected as described below.

($ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	($22.2)	($22.9)	($23.6)	($24.3)	($25.1)
GF Expenditures	0	0	0	0	0
Net Effect	($22.2)	($22.9)	($23.6)	($24.3)	($25.1)

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

Local Effect: Local revenues could decline by an estimated $12.1 million in FY 1997, increasing by approximately 3% in the out-years. Expenditures could be affected as described below.

Fiscal Analysis

State Revenues: General fund revenues could decline by $22.2 million in fiscal 1997 based on the following facts and assumptions:

- this bill applies to tuition for kindergarten and prekindergarten at private schools;
- 54,300 students attended kindergarten and prekindergarten during the 94-95 school year, half of whom were enrolled in parochial schools;
- the average tuition at non-parochial schools and parochial secondary schools is greater than $3,000;
- the average tuition at parochial elementary schools and preschools is $2,500;
- non-parochial schools had enrollment of 9,300 students for the 94-95 school year;
- parochial elementary schools had enrollment of 52,160;
- parochial secondary schools had enrollment of 40,620;
- enrollment at all schools increases at 1.7% per year; and
- tuition increases by 3% per year.

Parents paying tuition for students in grades, 1 through 12 at non-parochial schools or students in grades 7 through 12 at parochial schools will qualify for subtractions totaling $152.9 million in tax year 1996, resulting in a revenue loss of $7,645,000 in fiscal 1997.

Parents paying tuition for students in grades 1 through 6 at parochial schools will qualify for subtractions of $136.6 million, resulting in a revenue loss of $6,830,000 in fiscal 1997.

Parents paying tuition for kindergartners and prekindergartners at parochial schools will receive subtractions of $71.1 million; parents for these students at non-parochial schools will receive subtractions of $82.8 million. The associated revenue loss in fiscal 1997 for kindergartners and prekindergartners is $7,695,000.

The total general fund revenue loss could be $22,172,000 in fiscal 1997, the year in which 1996 taxes are filed. Out-year growth, shown in the box above, is driven by the increase in enrollment and the increase in tuition at parochial elementary schools.

Taxes for those taxpayers claiming this subtraction will be reduced by $150 per student, assuming the taxpayers are in the 5% bracket.

This revenue loss could increase to the extent that parents are given the incentive to remove their children from public schools and place them in private schools.

State Expenditures: Any increase in administrative costs can be absorbed within existing budgeted resources.

Since this bill will provide an incentive for parents to remove their children from public schools, it is possible that savings in education expenditures could be realized, although any such amount cannot be estimated at this time.

Local Revenues: Local governments will lose piggyback revenues of about 54% of the State loss in each fiscal year. In fiscal 1997, the loss could total $12,084,000. This loss could increase to the extent that parents are given the incentive to remove their children from public schools and place them in private schools.

Local Expenditures: Local government expenditures could decline by an indeterminate amount if parents remove their children from public schools.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Education, Association of Independent Maryland Schools, Department of Fiscal Services

Fiscal Note History: First Reader - January 18, 1996
ncs

Analysis by: David F. Roose
Reviewed by: John Rixey
(410) 841-3710
(301) 858-3710

Direct Inquiries to:
John Rixey, Coordinating Analyst