

Department of Legislative Services  
Maryland General Assembly  
2001 Session

FISCAL NOTE

House Bill 1129 (Delegates Phillips and Zirkin)  
Ways and Means

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**Income Tax Credit - Monetary Contributions for Extracurricular Activities**

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This bill creates a Maryland income tax credit for 100% of the amount of voluntary monetary contributions made by an individual or corporation during the taxable year to a State public school for “extracurricular activities” or equipment needed for extracurricular activities. The amount of the credit is limited to \$500 (\$250 for married couples filing separate returns) and may not exceed the State income tax. Any unused credit may be carried forward for up to five years. The credit is not allowed if the taxpayer designates the contribution be made for the direct benefit of any dependent of the taxpayer.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2000.

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**Fiscal Summary**

**State Effect:** Potential significant general fund and Transportation Trust Fund (TTF) decrease. The extent of the decrease depends on the number of taxpayers who donate to extracurricular activities at public schools. *Under one set of assumptions* (10% of those filing a personal income tax return claim the maximum \$500 credit), general fund revenues could decrease by approximately \$121.0 million in FY 2002.

**Local Effect:** Potential increase in local government revenues.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** Extracurricular activities are defined as optional school-sponsored activities at State elementary or secondary schools that require students to pay a fee in order to participate. They include field trips, after school programs, summer programs, and athletics. Equipment needed for extracurricular activities includes scientific laboratory materials, band uniforms and instruments, and athletic equipment and uniforms.

**Current Law:** No income tax credit of this type exists under the Maryland income tax. However, the Internal Revenue Code (IRC) allows an individual who itemizes deductions on the federal income tax return to deduct up to 50% of charitable contributions made to educational organizations. The Maryland income tax allows the same deductions provided that the individual itemizes on the Maryland income tax return.

**State Fiscal Effect:** While the cost of this bill cannot be reliably estimated, it is believed that it could result in a significant general fund and TTF revenue decrease. The extent of the decrease depends on the number of persons who donate money to extracurricular activities at public schools.

There are approximately 842,000 children in Maryland public schools. In tax year 1999 (the most recent year for which data is available) there were 2,420,966 personal income tax returns filed. *For illustrative purposes only*, assuming that 10% (242,097) of the taxpayers who filed a personal income tax return in 1999 donated \$500 (the maximum allowable credit) to extracurricular activities at a public school in tax year 2001, general fund revenues could decrease by approximately \$121 million in fiscal 2002, which is approximately \$12 million for every 1% of taxpayers who donate.

To the extent that corporations donate to public schools and claim the credit proposed by the bill, revenues would decrease accordingly. Credits taken on personal income tax returns would reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

The revenue decrease would be offset by approximately 4.8% (the tax rate for tax year 2001) in fiscal 2002 as a result of individuals who itemize deductions reducing their total deductions by the amount of the credit claimed.

**Local Fiscal Effect:** The credit is allowed against the State income tax only. However, to the extent that individuals who itemize deductions reduce their deductions by the amount of the credit claimed it would increase total Maryland taxable income. Local government revenues would increase by approximately 2.74% of any increase in total Maryland taxable income.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland State Department of Education, Department of Legislative Services

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