

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 42 (Delegate Taylor)
 Ways and Means

Income Tax - Subtraction Modification for Qualified Tuition Expenses at Public Universities

This bill creates a subtraction modification under the State personal income tax for 5% of the tuition and mandatory fees paid to an institution that is part of the University System of Maryland, St. Mary’s College, or Morgan State University.

The bill takes effect July 1, 2005 and applies to tax years 2005 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by approximately \$1.0 million in FY 2006. Future year revenue decreases reflect annual growth in tuition and fees. Expenditures would not be affected.

| (\$ in millions) | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenue | (\$1.0) | (\$1.1) | (\$1.2) | (\$1.3) | (\$1.5) |
| Expenditure | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$1.0) | (\$1.1) | (\$1.2) | (\$1.3) | (\$1.5) |

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

Local Effect: Local revenues would decrease by approximately \$659,500 in FY 2006, increasing to \$949,300 in FY 2010. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: No similar State subtraction modification exists.

Background: Exhibit 1 lists the estimated increases in tuition at University of Maryland System institutions, Morgan State University, and St. Mary's College (four-year public institutions) from 2001 to 2005, and the estimated tax savings in the 2005-2006 school year if individuals are able to deduct 5% of the tuition and fees paid as provided by the bill. The estimated savings assume that the individual does not receive any grants, scholarships, or tuition waivers.

Exhibit 1
Annual Tuition and Mandatory Fees at Four-year Public Institutions
Full-time Resident Undergraduates
Fall 2001 to 2005

| | <u>Actual</u> <u>Fall 2001</u> | <u>Proposed</u> <u>Fall 2005</u> | <u>Percent</u> <u>Change</u> | <u>Tax Benefit</u> <u>Provided</u> <u>by HB 42</u> |
|----------------------------|-----------------------------------|-------------------------------------|---------------------------------|--|
| Bowie State University | \$3,782 | \$5,481 | 44.9% | \$13.02 |
| Coppin State | 3,477 | 4,714 | 35.6% | 11.20 |
| Frostburg State University | 4,256 | 6,230 | 46.4% | 14.80 |
| Salisbury University | 4,486 | 6,376 | 42.1% | 15.14 |
| Towson University | 4,984 | 7,096 | 42.4% | 16.85 |
| UM College Park | 5,341 | 7,821 | 46.4% | 18.57 |
| UM Eastern Shore | 4,128 | 5,808 | 40.7% | 13.79 |
| UM University College* | 4,728 | 5,520 | 16.8% | 13.11 |
| UMBC | 5,910 | 8,520 | 44.2% | 20.24 |
| University of Baltimore | 4,504 | 6,794 | 50.8% | 16.14 |
| Morgan State University | 4,508 | 6,110 | 35.5% | 14.51 |
| St. Mary's College | 7,549 | N/A | N/A | N/A |

*Based on 24 credit hours.

State Revenues: General fund revenues would decrease by approximately \$1.0 million in tax year 2005, resulting in a general fund decrease of approximately \$1.0 million in fiscal 2006. The decrease in future years would increase by approximately 9%, totaling approximately \$1.5 million in fiscal 2010. This estimate is based on the following facts and assumptions:

- Mandatory tuition and fees paid increases annually by 5.9% for full-time resident undergraduates and 9% for part-time resident undergraduates and resident graduate students.
- There were a total of 134,453 students at four-year public institutions in fiscal 2004. The number of students increases by the amount projected by the Maryland Higher Education Commission (MHEC), averaging approximately 3% annually.
- The number of resident students in each year is based on the percent of resident students at each institution during fall 2003 as calculated by MHEC.
- Based on the assumptions above, it is estimated that tuition and mandatory fees paid by or on behalf of resident students at four-year public institutions totals \$780.8 million.
- Approximately \$355.3 million of this amount is covered by scholarships, grants, or tuition waivers and would not be eligible for the subtraction modification based on fiscal 2003 data provided by MHEC. It is assumed that the total amount of aid increases at 9% annually from 2003 to 2009.
- Subtraction modifications claimed against the personal income tax reduce tax revenues by 4.75% of the total subtraction modification.

Local Revenues: Local revenues would decrease by approximately 3.1% of the State subtraction taken in each tax year. In fiscal 2006 the decrease would total approximately \$659,500. Future year revenues could decrease by approximately \$727,100 in fiscal 2007, \$796,500 in fiscal 2008, \$871,000 in fiscal 2009, and \$949,300 in fiscal 2010.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Higher Education Commission, Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510