

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 695 (Delegate Frank, *et al.*)
 Ways and Means

Income Tax Checkoff - General Fund Contribution

This bill establishes a State general fund checkoff on the individual and corporate income tax return forms. After the Comptroller deducts administrative expenses, the contributions are distributed to the State general fund.

The bill is effective July 1, 2005 and applies to tax year 2005 and beyond.

Fiscal Summary

State Effect: Potential minimal increase in general fund revenues in FY 2006 and beyond due to general fund donations. Special fund expenditures increase by approximately \$88,800 in FY 2006, which includes one-time tax form changes and computer programming expenditures. FY 2006 expenditures would be greater than revenues.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	-	-	-	-	-
SF Expenditure	88,800	0	0	0	0
Net Effect	(\$88,800)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Chesapeake Bay and Endangered Species Fund (CBESF), the Fair Campaign Financing Fund (FCFF), and the Cancer Research Fund (CRF) are the three current checkoffs on the personal income tax form. The corporate income tax form has no checkoffs.

Background: In fiscal 2004, approximately \$1.6 million was donated to CBESF and \$183,000 was donated to FCFF. Chapter 392 of 2004 added the CRF checkoff beginning with tax year 2004.

A survey by the Federation of Tax Administrators (FTA) identified 220 checkoff programs available to taxpayers in 41 states and the District of Columbia on state income tax returns filed for tax year 2002. Every state with a broad-based income tax has at least one checkoff program and some states have had to create a separate form just for checkoffs. For example, in tax year 2003 Virginia had 22 checkoffs which added four pages to the personal income tax form. The most common checkoffs are for wildlife protection, political campaigns, and child abuse prevention. According to the FTA, Maryland's CBESF checkoff was the largest nonpolitical state checkoff.

No state has a general fund checkoff, although in recent years representatives in several states including Colorado, Arizona, and Missouri have proposed adding general fund checkoffs. Although not a checkoff, Arkansas in 2001 and Virginia in 2002 created a fund that allows citizens to mail voluntary contributions to the state's general fund. Approximately \$3,000 has been contributed to Arkansas' general fund through January 2004. Three individuals have voluntarily contributed to Virginia's general fund although none was donated in fiscal 2004.

State Revenues: General fund revenues could increase minimally in fiscal 2006 and beyond due to general fund donations. Donations to this checkoff would likely divert some funds from the two existing personal income checkoffs: CBESF and FCFF.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$88,800 to add the checkoff to the personal and corporate income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

While the amount of donations cannot be accurately estimated, based on the experience of the Arkansas and Virginia programs, Legislative Services believes that expenditures will be greater than general fund increases in fiscal 2006. General fund revenues could increase in fiscal 2007 and beyond by a minimal amount.

Additional Information

Prior Introductions: HB 36 of 2004, an identical bill, was not reported from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Comptroller's Office, Federation of Tax Administrators, Virginia Department of Revenue, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2005
ncs/hlb

Analysis by: Robert J. Rehrmann

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