

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 854  
 Ways and Means

(Delegate Frick, *et al.*)

Budget and Taxation

**Income Tax - Credit for Providing Adult Literacy Programs**

This bill creates an adult literacy services tax credit program for a business or nonprofit organization that provides adult literacy services to its employees. The bill establishes an application and certification procedure and creates a reserve fund to which the Governor can appropriate funds in fiscal 2010, 2011, and 2012. The amount of credits that the State Superintendent can award in each of these fiscal years cannot exceed the lesser of \$250,000 or the amount of money in the fund.

The bill takes effect July 1, 2008.

**Fiscal Summary**

**State Effect:** General fund expenditures could increase by \$250,000 annually in FY 2010 through 2012 for appropriations to the reserve fund. General fund expenditures would also increase by \$34,000 in FY 2009 for one-time tax form changes and computer programming expenditures. General fund revenues could increase minimally in FY 2010 through 2012, and Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues would decrease by a corresponding amount due to reserve fund transfers for credits claimed against the corporate income tax.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	34,000	250,000	250,000	250,000	0
Net Effect	(\$34,000)	(\$250,000)	(\$250,000)	(\$250,000)	\$0

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

**Local Effect:** Local highway user revenues could decrease minimally in FY 2010 through 2012 due to credits being claimed against the corporate income tax. Expenditures would not be affected.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The value of the tax credit is equal to the lesser of • 35% of the cost of adult literacy instruction provided by the business to its employees; • \$150 per employee that receives adult literacy instruction; or • \$25,000. A taxpayer claiming the credit can claim a refund in the amount by which the credit exceeds the tax liability in the tax year.

Taxpayers seeking the tax credit in each year must submit an application to the State Superintendent of Schools between April 1 and October 31 for the fiscal year that begins on July 1 of the year. The Superintendent would award an initial credit certificate between July 1 and December 31 of each fiscal year to each approved application based on the amount of estimated adult literacy expenditures. The Superintendent is to award credits based on “need and performance.” A maximum of 50% of the total initial credit certificates issued in a fiscal year can be allocated for projects located in one county or Baltimore City. The Superintendent would issue a final credit certificate based on the actual qualifying adult literacy expenditures incurred during the year.

The bill creates an adult literacy services tax credit reserve fund. The total amount of initial credit certificates issued by the Superintendent in each fiscal year cannot exceed the lesser of \$250,000 or the amount appropriated to the reserve fund in the State budget. The bill states that the Governor may appropriate money to the reserve fund in fiscal 2010, 2011, and 2012. The bill does not require or specify a recommended amount that is to be appropriated to the fund. The Governor may not reduce an appropriation to the reserve fund that is approved by the General Assembly. For each fiscal year, if funds are transferred from the reserve fund as a result of any law, the amount of total credits that can be approved by the Superintendent is reduced by the amount of money transferred. Any amount of money in the fund that is not expended in the fiscal year can be rolled over into the next fiscal year.

By October 1 of each year the Superintendent is required to (1) report to the Governor and the General Assembly on the administration of the tax credit; and (2) adopt regulations in order to carry out the provisions of the bill.

**Current Law:** No similar State tax credit of this type exists.

**Background:** Committee narrative in the 2004 *Joint Chairmen’s Report* expressed concern about the number of individuals on the waiting list for adult education and literacy services. The waiting list has consistently been estimated at approximately 4,000 to 5,000 individuals. In addition to requiring additional State funding for adult education programs, Chapter 305 of 2005 required MSDE to establish an ongoing method of funding for adult education and literacy services so that the waiting list for these programs could be reduced to the greatest extent possible.

In response to the legislative actions, a Superintendent’s Panel on Excellence in Adult Education was established and released a final report, *Stepping Up to the Future*, on December 1, 2005. The panel found that there are approximately one million Marylanders who need adult education services and that the State’s contribution to adult education programs is considerably lower than the contributions made by other states. Among its recommendations were to consolidate existing State funding streams for adult education within MSDE, encourage workplace partnerships with businesses and provide incentives, establish in statute a State funding formula for adult education, and increase investment in evidence-based adult education.

State funding for adult education services totals \$6.9 million in both fiscal 2008 and 2009, and federal funding totals \$7.5 million. **Exhibit 1** shows the fiscal 2008 and 2009 levels of State and federal funding for adult education, by program.

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**Exhibit 1**  
**State and Federal Funding for Adult Continuing Education**  
**Fiscal 2008 and 2009**

<b><u>State Funding</u></b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>
Adult General Education	\$161,703	\$161,703
External Diploma Program	281,070	281,070
Literacy Works Grant	6,410,849	6,410,849
Center for Art and Technology	<u>80,000</u>	<u>80,000</u>
<i>Subtotal – State Funding</i>	\$6,933,622	\$6,933,622
<b><u>Federal Funding</u></b>		
Adult Education – State-administered	<u>\$7,490,708</u>	<u>\$7,492,510</u>
<b>Total Funding</b>	<b>\$14,424,330</b>	<b>\$14,426,132</b>

Source: *Maryland Operating Budget Book, Fiscal Year 2009*

## **State Fiscal Effect:**

### *Appropriations to the Reserve Fund*

The bill provides that the Governor may appropriate funds to the reserve fund in fiscal 2010, 2011, and 2012. The bill does not require or suggest an amount that should be appropriated. The bill does state, however, that the Superintendent may not award more than \$250,000 in credits in each fiscal year. Assuming a fully funded program, State expenditures would increase by \$250,000 annually in fiscal 2010 through 2012.

### *Revenue Effects from Reserve Fund Transfers*

The bill requires the Comptroller to transfer money from the reserve fund to the general fund in an amount that is anticipated to offset credits that would be claimed during the fiscal year. Credits claimed against the corporate income tax will reduce TTF and HEIF revenues as well as general funds. About 20% of corporate income tax revenues are distributed to the TTF (6% to HEIF). All the money transferred from the reserve fund by the Comptroller in anticipation of credits being claimed is to be deposited in the general fund and losses to the TTF and HEIF would not be offset. As a result, general fund revenues could increase and TTF and HEIF revenues could decrease minimally in fiscal 2010 through 2012 due to money being transferred back to the general fund for tax credits claimed against the corporate income tax.

It is assumed that the amount of credits claimed in each tax year would be equal to the amount stated in the initial credit certificate so that credits claimed in each tax year would be offset by a transfer from the reserve fund. The final amount of the credits, however, could be less than the amount stated on the initial credit certificate if actual adult literacy expenses are less than the estimated expenditures stated on the approved application. To the extent final credit amounts for adult literacy services are less than the amount stated on the initial credit certificate, revenues could increase in these fiscal years.

It is also assumed that taxpayers claim the credit in the tax year that corresponds to the fiscal year in which the Comptroller transfers funds to the general fund on notification of a certified credit. To the extent that taxpayers claim the credit in a tax year after the fiscal year in which the transfer is made, general fund revenues could increase in earlier fiscal years and potentially decrease by a corresponding amount in later fiscal years. The extent of this lag, if any, cannot be reliably estimated at this time. This timing issue, however, does not alter the total cost of the bill.

### *Administrative Costs*

The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 in fiscal 2009 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

Legislative Services advises that based on the maximum amount of credits that could be awarded in each fiscal year, the additional workload generated at MSDE could be absorbed within existing budget resources.

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### **Additional Information**

**Prior Introductions:** Similar bills were introduced in the 2007, 2006, and 2005 sessions. HB 38 of 2007 received a favorable with amendments report from the House Ways and Means Committee and passed the House, but was not reported from the Senate Budget and Taxation Committee. HB 347 of 2006 received a favorable with amendments report from the House Ways and Means Committee but did not pass the House. SB 597 of 2005 was not reported from the Senate Budget and Taxation Committee. HB 529 of 2005 passed the House but was not reported from Budget and Taxation.

**Cross File:** SB 298 (Senator King, *et al.*) – Budget and Taxation.

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

**Fiscal Note History:** First Reader - March 14, 2008  
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