

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

**FISCAL AND POLICY NOTE**

House Bill 884 (Delegate Schuh)  
 Ways and Means

**Income Tax Credit - Nonpublic Education Expenses**

This bill creates a State income tax credit for specified nonpublic education expenses incurred by a parent or guardian. The amount of the credit cannot exceed \$1,000 or the income tax liability imposed in that year. Any unused amount of the credit may be carried forward for five taxable years. The Comptroller is required to adopt regulations to implement the bill and specify the documentation necessary to claim the credit.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$80.0 million in FY 2015 due to tax credits claimed against the personal income tax. Future year revenue decreases reflect a 3% annual increase in eligible expenses. General fund expenditures increase by \$48,000 in FY 2015 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$80.0)	(\$82.4)	(\$83.5)	(\$84.7)	(\$85.9)
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$80.0)	(\$82.4)	(\$83.5)	(\$84.7)	(\$85.9)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The bill creates a State income tax credit for the nonpublic education expenses incurred by a parent or guardian. The amount of the credit cannot exceed \$1,000 or the tax liability imposed in that year. Any unused amount of the credit may be carried forward for five taxable years. Eligible nonpublic education expenses include (1) correspondence courses or distance learning programs; (2) instruction-related materials; (3) textbooks; or (4) workbooks. The nonpublic education program must be authorized and operated in compliance with Sections 2-206 and 7-301 of the Education Article. The Comptroller is required to adopt regulations to implement the bill and specify the documentation necessary to claim the tax credit.

**Current Law:** No similar State income tax credit exists.

**Background:** The Maryland State Department of Education (MSDE) *2011-2012 Fact Book* indicates that there are 1,441 nonpublic K-12 schools in the State. Approximately 1,000 of these schools are located in the following local jurisdictions: Montgomery (332), Baltimore (216), Prince George's (173), Anne Arundel (142), and Baltimore City (140). According to the U.S. Census Bureau, private K-12 education enrollment in Maryland totaled 136,200 in 2010, a decrease from 157,800 in 2008. MSDE estimates that there are currently 124,000 children enrolled in a nonpublic school in the State.

**State Revenues:** Tax credits may be claimed beginning in tax year 2014. As a result, general fund revenues will decrease by \$80.0 million in fiscal 2015. This estimate is based on the estimated number of children enrolled in nonpublic schools and the following assumptions:

- Taxpayers claim an average credit of \$800 in tax year 2014.
- A stable number of taxpayers claim the credit in future years.
- The average amount of eligible expenses increases by 3% annually.
- According to the National Center for Education Statistics, 80% of children enrolled in a private K-12 school were in two-parent households.
- Based on data from the U.S. Census Bureau, it is estimated that two-parent households have an average of 2.2 children attending a nonpublic school and one-parent households have an average of 1.8.
- Only one parent incurs eligible expenses and claims the credit on behalf of children in one-parent households.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$48,000 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.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 23, 2014  
mc/jrb

---

Analysis by: Robert J. Rehrmann

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