HB 699

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 699 (Delegate Murphy, *et al.*)

Ways and Means Budget and Taxation

Income Tax - Subtraction Modification - Unreimbursed Expenses of Foster Parents

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This bill creates a subtraction modification against the State income tax for 100% of the eligible expenses incurred by a foster or kinship parent, subject to a maximum value of $1,500.

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

Fiscal Summary

State Effect: General fund revenues decrease by $249,000 in FY 2015 due to eligible expenses being claimed against the State income tax. Future year revenue decreases reflect a 1% 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 dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	($249,000)	($251,000)	($254,000)	($256,000)	($259,000)
GF Expenditure	$48,000	$0	$0	$0	$0
Net Effect	($297,000)	($251,000)	($254,000)	($256,000)	($259,000)

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

Local Effect: Local revenues decrease by $162,000 in FY 2015 and by $169,000 in FY 2019. Expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The bill creates a subtraction modification against the State income tax for 100% of the unreimbursed expenses incurred by a foster or kinship parent on behalf of a foster child. In order to qualify, the expenses must be approved as necessary by a local department of social services or the Montgomery County Department of Health and Human Services. Any expenses for which a foster parent receives reimbursement from a public or private agency may not be deducted. The maximum amount of the subtraction modification is limited to $1,500.

Foster parents must be approved by a local department to provide 24-hour care for a foster child, and treatment foster parents licensed by a child placement agency may not claim the subtraction modification. The Department of Human Resources (DHR) is required by October 1 of each year to submit to the Comptroller a list of approved foster parents.

Current Law: No similar State income tax subtraction modification exists. Federal income tax law exempts those payments received for the support of a foster child received from a child placement agency or a state or county. In addition, specific criteria detail whether a foster child may be claimed as a dependent and whether a taxpayer can claim related federal tax benefits such as the child tax credit.

Arizona offers a tax credit for donations to foster care organizations. Beginning with tax year 2014, Oklahoma taxpayers who care for a foster child can claim a deduction of up to $5,000.

Background: Foster care is a temporary service that provides short-term care and supportive services to children who are unable to live at home because of child abuse or neglect. Foster children live in family foster homes and group care settings. Foster care programs are operated by the counties and Baltimore City. Foster care caseworkers assist the birth and foster families in obtaining services, such as counseling and health care. Each foster care program also recruits, trains, approves, and retains foster care providers.

Chapter 546 of 1995 established the Kinship Care Program within the Social Services Administration of the Department of Human Resources. According to DHR, kinship care is one of the fastest growing populations nationally. The U.S. Census Bureau reports that 4.5 million children live in households headed by grandparents and an additional 1.5 million live in households headed by other relatives. In Maryland, kinship care is designed to preserve family ties by assisting when possible with the needs of children, the biological parents, and the relative providing care to the child. A kinship parent is an individual who is related by blood or marriage within five degrees of consanguinity or affinity under the civil law rule to a child who is in the care, custody, or guardianship of the local department of social services and with whom the child may be placed for temporary or long-term care other than adoption.

In selecting a placement that is in the best interests of a child in need of out-of-home placement, the local department must, as a first priority, attempt to place the child with a kinship parent. The local department must exhaust all reasonable resources to locate a kinship parent for initial placement of the child. If no kinship parent is located at the time of the initial placement, the child must be placed in a foster care setting. If a kinship parent is located after the child is placed in foster care, the local department may, if it is in the best interest of the child, place the child with the kinship parent.

In fiscal 2013, there were a total of (1) 1,748 children in foster care, with State expenditures to parents totaling $14.9 million or an average monthly payment of $709 per child and (2) 2,133 children in subsidized guardianship, with State expenditures totaling $17.1 million or a monthly payment of $667 per child.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2014. As a result, general fund revenues will decrease by $249,000 in fiscal 2015. This estimate is based on the number of children in subsidized guardianship or foster care and the following assumptions:

- taxpayers deduct the maximum amount of $1,500 in tax year 2014;
- 10% of all expenses is claimed on a nontaxable return; and
- the number of foster children increases by 1% annually.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $48,000 in fiscal 2015 to add the subtraction modification to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Local revenues will decrease by $162,000 in fiscal 2015, $164,000 in fiscal 2016, $166,000 in fiscal 2017, $167,000 in fiscal 2018, and $169,000 in fiscal 2019.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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