

Department of Legislative Services  
 Maryland General Assembly  
 2015 Session

FISCAL AND POLICY NOTE

House Bill 854 (Delegate Lisanti, *et al.*)  
 Ways and Means

Income Tax Credit - Donations to Community Colleges

This bill creates a tax credit against the State income tax for donations of at least \$500 made to a community college in the State. The credit is equal to 25% of the donation. The Maryland Higher Education Commission (MHEC) is required to administer the credit and adopt regulations jointly with the Comptroller’s Office to implement the credit. MHEC may award a maximum of \$2 million in credits each tax year.

The bill takes effect July 1, 2015, and applies to tax years 2015 and beyond.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$1.4 million in FY 2016 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$44,300 in FY 2016, and Higher Education Investment Fund (HEIF) revenues decrease by \$16,100. General fund expenditures increase by \$264,700 in FY 2016 due to implementation costs at MHEC and the Comptroller’s Office. Future year expenditure estimates reflect ongoing MHEC administrative costs.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	(\$1,439,600)	(\$1,444,800)	(\$1,444,800)	(\$1,444,800)	(\$1,444,800)
SF Revenue	(\$60,400)	(\$55,200)	(\$55,200)	(\$55,200)	(\$55,200)
GF Expenditure	\$264,700	\$78,200	\$81,900	\$85,700	\$89,700
Net Effect	(\$1,764,700)	(\$1,578,200)	(\$1,581,900)	(\$1,585,700)	(\$1,589,700)

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

**Local Effect:** Local highway user revenues decrease by approximately \$4,000 annually beginning in FY 2016 as a result of credits claimed against the corporate income tax. Local income tax revenues increase by \$198,400 annually beginning in FY 2016 due to the requirement that taxpayers add back any amount of qualified donations.

**Small Business Effect:** None.

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## **Analysis**

**Bill Summary:** A taxpayer claiming the credit is required to add back the amount of the donation claimed to Maryland adjusted gross income or Maryland modified income under certain circumstances. Taxpayers seeking the tax credit must apply to MHEC at least 30 days before making the donation and must make the donation within 30 days after receiving an initial tax credit certificate. Applications are approved on a first-come, first-served basis until the total cap for the tax year is reached.

MHEC is required to (1) issue an initial tax credit certificate within 30 days after receiving an application; (2) issue a final tax credit certificate within 30 days after receiving notice of a donation made to a community college; (3) provide written notice to any applicant whose tax credit application is denied explaining why the application was denied; (4) report annually to the Comptroller's Office the donations that have been approved for tax credit certificates in the previous year; (5) rescind an initial tax credit certificate if the taxpayer fails to make a donation within 30 days after receiving an initial tax credit certificate; and (6) adopt regulations jointly with the Comptroller's Office to implement the credit and specify application, approval, and monitoring criteria and procedures.

### **Current Law:**

#### *Federal and State Tax Treatment of Charitable Contributions*

Individuals who itemize deductions can deduct eligible charitable donations, which typically lowers federal and State income tax liability. Corporations (other than S corporations) can deduct charitable contributions on their income tax returns, subject to limitations. Sole proprietors, partners in a partnership, or shareholders in an S corporation may be able to deduct charitable contributions made by their business on the federal Schedule A form.

#### *Endow Maryland*

Chapter 511 of 2014 created a tax credit against the State income tax for donations made to a qualified permanent endowment fund at an eligible community foundation. The value of the credit is equal to the lesser of 25% of the eligible donation or \$50,000. The Department of Housing and Community Development (DHCD) is required to administer the credit and adopt regulations implementing the credit. DHCD may award a maximum of \$250,000 in credits in each tax year.

*Neighborhood and Community Assistance Tax Credit*

Chapter 636 of 1996 established the Neighborhood and Community Assistance Tax Credit. A business or individual can claim a tax credit for 50% of the eligible contributions made to DHCD-approved projects conducted by nonprofit organizations in a priority funding area. The tax credit can be claimed against the personal, corporate, public service franchise, and insurance premiums taxes. The purposes of the Neighborhood and Community Assistance Program are to (1) help nonprofit organizations carry out approved projects in priority funding areas; (2) encourage business entities to invest in priority funding areas; and (3) strengthen partnerships between public and private entities. Chapter 82 of 2013 increased the maximum sum of contributions eligible for a tax credit offered under the program from \$2.0 million to \$3.5 million in each fiscal year.

**Background:** There are 16 community colleges, including Baltimore City Community College, in the State.

**State Revenues:** MHEC may approve a maximum of \$2.0 million in credits annually beginning in tax year 2015. As a result, general fund revenues decrease by \$1.4 million in fiscal 2016. TTF revenues decrease by \$44,300 in fiscal 2016, and HEIF revenues decrease by \$16,100. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the proposed tax credit.

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**Exhibit 1**  
**Projected Impact on State and Local Revenues**  
**Fiscal 2016-2020**

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
<b>Total State Revenues</b>	(\$1,500,000)	(\$1,500,000)	(\$1,500,000)	(\$1,500,000)	(\$1,500,000)
General Fund	(1,439,600)	(1,444,800)	(1,444,800)	(1,444,800)	(1,444,800)
HEIF	(16,100)	(16,100)	(16,100)	(16,100)	(16,100)
TTF	(44,300)	(39,100)	(39,100)	(39,100)	(39,100)
<i>State</i>	<i>(40,100)</i>	<i>(35,400)</i>	<i>(35,400)</i>	<i>(35,400)</i>	<i>(35,400)</i>
<i>LHUR</i>	<i>(4,300)</i>	<i>(3,800)</i>	<i>(3,800)</i>	<i>(3,800)</i>	<i>(3,800)</i>
<b>Local Income Tax Revenues</b>	<b>\$198,400</b>	<b>\$198,400</b>	<b>\$198,400</b>	<b>\$198,400</b>	<b>\$198,400</b>

LHUR = Local Highway User Revenues

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To the extent MHEC does not award the maximum amount of credits in each fiscal year, revenue losses will be less than estimated. Taxpayers claiming the credit are required to add back the amount of the qualified donation claimed to Maryland adjusted gross income

or Maryland modified income under certain circumstances; net revenue losses will therefore be less than the total amount that can be awarded. This estimate also assumes that 80% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

**State Expenditures:** General fund expenditures increase by \$264,662 in fiscal 2016 due to implementation costs at MHEC and the Comptroller's Office, as described below.

The Comptroller's Office reports that it will incur a one-time expenditure increase of \$183,850 in fiscal 2016 to add the credit and add-back adjustment to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

MHEC indicates it would need one tax credit specialist to administer the program. General fund expenditures will increase by an estimated \$80,812 in fiscal 2016, which reflects the bill's July 1, 2015 effective date. This estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$75,942
Other Operating Expenses	<u>4,870</u>
<b>MHEC Expenditures</b>	<b>\$80,812</b>
<b>Comptroller Expenditures</b>	<b><u>183,850</u></b>
<b>Total FY 2016 Expenditures</b>	<b>\$264,662</b>

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

**Local Fiscal Effect:** Local highway user revenues decrease by approximately \$4,000 annually beginning in fiscal 2016 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1. Local income tax revenues increase by \$198,400 annually beginning in fiscal 2016 due to the bill's add-back requirement.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 8, 2015  
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