

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1294  
 Ways and Means

(Delegate Haynes, *et al.*)

**Income Tax Credit – Payment of Tuition at a Community College**

This bill creates a tax credit against the State income tax for an individual who pays specified community college tuition and fees. The value of the credit is equal to 100% of the eligible tuition and fees paid, not to exceed the tax liability imposed in the year. Any unused amount of the credit may not be carried forward to any other tax year. In order to qualify, the amount paid must not otherwise be covered by a grant or loan. 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, 2018, and applies to tax year 2018 and beyond.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$89.5 million in FY 2019 due to credits claimed against the personal income tax. Future year revenue estimates reflect a 2% annual increase in eligible expenses. General fund expenditures increase by \$86,800 in FY 2019 due to implementation costs at the Comptroller’s Office. Future year expenditure estimates reflect annualization and ongoing operating expenses.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$89.5)	(\$91.3)	(\$93.1)	(\$95.0)	(\$96.9)
GF Expenditure	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	(\$89.6)	(\$91.3)	(\$93.2)	(\$95.0)	(\$96.9)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law/Background:** No similar State tax credit exists, but individuals who pay community college tuition and fees may qualify for several federal and State tax benefits as described below.

*Publication 970* of the Internal Revenue Service outlines the available federal tax benefits for education expenses, including the tax treatment of certain:

- scholarships, grants, and tuition reductions;
- canceled student loans;
- student loan repayment assistance;
- tuition and fees;
- education savings accounts;
- qualified tuition programs;
- early distributions from any type of individual retirement arrangement used for education costs;
- use of savings bonds for education costs;
- employer-provided educational benefits; and
- deductions for work-related education.

Maryland generally conforms to the federal tax treatment of these benefits, except for the federal qualified tuition and fees deduction. The benefit is not allowed for State income tax purposes, so an individual claiming the deduction must add back the amount of the deduction when determining State income tax liability.

Chapters 689 and 690 of 2016 established a refundable tax credit of up to \$5,000 for qualified undergraduate student loan debt. Beginning in tax year 2017, individuals who have incurred \$20,000 or more in undergraduate student loan debt and have at least \$5,000 in outstanding undergraduate debt qualify for the credit, subject to specified conditions. The Maryland Higher Education Commission (MHEC) may approve up to \$5 million in credits annually. A taxpayer who claims the student loan debt tax credit may also claim the tax credit proposed by the bill.

**State Revenues:** Tax credits may be claimed beginning in tax year 2018. As a result, general fund revenues will decrease by \$89.5 million in fiscal 2019. This estimate is based on the following facts and assumptions:

- according to MHEC, in fiscal 2014, Maryland residents paid a total of \$443.0 million in tuition and fees to a Maryland community college;

- of the amount paid by Maryland residents, \$114.8 million was not paid by a loan or grant;
- according to the Comptroller’s Office, about one-third of all resident tax returns that reported community college educational expenses in tax year 2012 did not have any tax liability;
- about 3% of the community college expenses reported by resident taxpayers in 2012 were paid to an out-of-state community college;
- revenue losses from nonresidents are minimal; and
- eligible tuition and fee amounts increase by about 2% annually.

**State Expenditures:** The Comptroller’s Office advises that it will incur additional costs beginning in fiscal 2019 as a result of hiring one revenue examiner and incurring programming expenses. As a result, general fund expenditures increase by \$86,800 in fiscal 2019, which reflects a January 1, 2019 hiring date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$28,581
Operating Expenses	5,203
Programming Expenditures	<u>53,000</u>
<b>Total FY 2019 Expenditures</b>	<b>\$86,784</b>

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

### Additional Information

**Prior Introductions:** HB 900 of 2017 and HB 64 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

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

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