

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 385 (Delegate Walker)
 Ways and Means

Income Tax - Subtraction Modification for Classroom Supplies Purchased by Teachers - Alteration

This bill expands the existing classroom supplies purchased by teachers tax subtraction modification by increasing from \$250 to \$500 the maximum value of the subtraction modification. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$910,000 in FY 2020 as a result of additional subtraction modifications claimed against the personal income tax. Future years reflect projected increase in eligible expenses. Expenditures are not affected.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$910,000)	(\$937,000)	(\$965,000)	(\$994,000)	(\$1,024,000)
Expenditure	0	0	0	0	0
Net Effect	(\$910,000)	(\$937,000)	(\$965,000)	(\$994,000)	(\$1,024,000)

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

Local Effect: Local revenues decrease by \$586,000 in FY 2020 and by \$660,000 in FY 2024. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background:

Federal Income Tax

For federal income tax purposes, eligible educators can deduct certain unreimbursed expenses including participation in professional development courses, books, supplies, and certain computer equipment used in the classroom. In order to qualify, the person must be a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide for at least 900 hours a school year at an elementary or secondary school.

This deduction is available regardless of whether the taxpayer itemizes deductions. In tax year 2018, taxpayers could deduct up to \$250 (\$500 if married filing jointly). This deduction reduces federal adjusted gross income, which in turn reduces State income tax liability by flowing through to Maryland adjusted gross income.

State Subtraction Modification

Chapter 466 of 2018 created a State income tax subtraction modification for classroom supplies that are purchased by an elementary or secondary classroom teacher. The amount of the subtraction cannot exceed \$250 of the unreimbursed expenses paid for classroom supplies used by students in the classroom or by the teacher to prepare for or during classroom teaching. The amount allowed as a subtraction does not include an expense that is subtracted from federal adjusted gross income under the federal deduction described above. An eligible individual is a full-time kindergarten through grade 12 classroom teacher at an elementary or secondary school in the State. Subtraction modifications may be claimed beginning with tax year 2018.

State Revenues: The bill expands the classroom supplies purchased by teachers tax subtraction modification beginning in tax year 2019. As a result, general fund revenues will decrease by \$910,000 in fiscal 2020. **Exhibit 1** shows the projected State and local revenue loss from the bill.

Exhibit 1
Projected State and Local Revenue Impact

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
State	(\$910,000)	(\$937,000)	(\$965,000)	(\$994,000)	(\$1,024,000)
Local	(586,000)	(604,000)	(622,000)	(640,000)	(660,000)
Total	(\$1,496,000)	(\$1,541,000)	(\$1,587,000)	(\$1,634,000)	(\$1,684,000)

Local Revenues: Local income tax revenues will decrease as a result of additional subtraction modifications claimed against the personal income tax. Local revenues will decrease by \$586,000 in fiscal 2020 and by \$660,000 in fiscal 2024, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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sb/hlb

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