

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1165 (Delegate Rosapepe, *et al.*)
Ways and Means

Children's Income Tax Credit

This bill creates a refundable credit against the State individual income tax for each child under the age of 18 for whom a taxpayer may claim a federal exemption. The credit is \$400 per child if the taxpayer's federal adjusted gross income (FAGI) is less than \$50,000; \$300 per child if the taxpayer's FAGI is between \$50,000 and \$100,000; \$200 per child if the taxpayer's FAGI is between \$100,000 and \$150,000; and \$100 per child if the taxpayer's FAGI is over \$150,000.

This bill is effective July 1, 1997, and applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated \$218.0 million in FY 1998 and \$430.0 million in FY 1999. Out-year losses would grow with the increase in personal exemptions. Expenditures would increase by \$14,800 on an annual basis beginning in FY 1999, increasing with inflation, and by an additional \$97,600 in FY 1998 and \$107,000 in FY 1999.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	(\$218.0)	(\$430.0)	(\$435.2)	(\$440.4)	(\$445.7)
GF Expenditures	0.1	0.1	0.0	0.0	0.0
Net Effect	(\$218.1)	(\$430.1)	(\$435.2)	(\$440.4)	(\$445.7)

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

Local Effect: None.

Small Business Effect: Meaningful impact on small businesses, as discussed below.

Fiscal Analysis

State Revenues: General fund revenues could decline by an estimated \$218.0 million in fiscal 1998. There will be 1,284,000 children under the age of 18 in 1998. According to the Maryland income tax simulation model, taxpayers claiming 50% of the exemptions for children have FAGI below \$50,000; taxpayers claiming 37.6% of the exemptions for children have FAGI between \$50,000 and \$100,000; taxpayers claiming 7.7% of the exemptions for children have FAGI between \$100,000 and \$150,000; and taxpayers claiming the remaining 4.7% of exemptions for children have FAGI above \$150,000.

The \$400 credit would result in a revenue loss of \$256.8 million. The \$300 credit would result in a loss of \$144.8 million. The \$200 credit would result in a loss of \$19.8 million, and the \$100 credit would result in a loss of \$6.0 million. The total loss for tax year 1998 would be \$427.4 million. This amount will grow with exemptions, about 1.2% per year. The tax year 1999 loss would be \$432.6 million.

Assuming that new withholding tables are issued and estimated payments are adjusted (since the credits would be substantial), the revenue loss in fiscal 1998 would be \$218.0 million; the remaining loss would occur in fiscal 1999 along with 51% of the tax year 1999 loss, for a fiscal 1999 revenue loss of \$430.0 million. This amount would increase by 1.2% per year.

State Expenditures: The Office of the Comptroller would incur costs for printing and distributing new withholding forms and for programming changes required for the tax processing system.

New withholding tables would have to be prepared in fiscal 1998. Generating and printing 145,000 tables would cost \$48,300; mailing the tables would cost \$49,300. Programming changes to the tax processing system would total \$107,000 in fiscal 1999. Two additional fields will be captured by the tax processing system, resulting in the need for two additional temporary data verifiers at an annual cost of \$14,800.

Small Business Effect: Many different forms of businesses pay the individual income tax rather than the corporate income tax, including sole proprietorships, partnerships, limited liability corporations, and subchapter S corporations. Most, but not all, businesses of these types are small businesses. The total number of these types of businesses, as well as the number which are small businesses, is unknown.

In tax year 1995, 303,827 individuals owned sole proprietorships, although there were more sole proprietorships than that since some individuals own more than one. A maximum of 160,050 individuals held ownership interests in partnerships, LLCs, and subchapter S corporations, not all of which are small businesses.

Refundable credits for children under age 18 would benefit these small businesses as it would all other taxpayers by allowing such businesses to retain a greater share of taxable income. If these taxpayers have children under age 18, they would benefit as would all taxpayers with children, depending upon FAGI and the number of children.

Additional Comments: Only taxpayers with children under age 18 would benefit from this income tax reduction. The savings would depend on FAGI and the number of children. A family of four with FAGI of \$40,000 would save \$800 (from current taxes of \$1,440), while a family of four with FAGI of \$100,000 would save \$400 (from current taxes of \$4,140; federal income taxes would increase by \$112). Of the total reduction in State taxes paid by Maryland taxpayers, less than 10% would be paid in higher federal taxes by those who itemize.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Fiscal Services

Fiscal Note History: First Reader - February 17, 1997

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