Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 96 (Delegate Leopold, *et al.*)
Ways and Means Referred to Budget and Taxation

Income Tax - Subtraction Modification for Employer Tuition Reimbursement Payments

This amended bill creates a subtraction modification for the individual income tax of up to $500 for higher education tuition payments reimbursed by an employer if the reimbursements are included in the employee's federal adjusted gross income. The subtraction is not available in a tax year if, under the Internal Revenue Code, educational assistance to an employee is excludable from gross income for federal income tax purposes.

This bill is effective July 1, 1997, and applies to all taxable years beginning after December 31, 1996.

Fiscal Summary

State Effect: General fund revenues could decline by $372,500 in FY 1999. Out-year losses are expected to be constant based on steady enrollment. Expenditures would not be affected.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$0	($372,500)	($372,500)	($372,500)	($372,500)
GF Expenditures	0	0	0	0	0
Net Effect	$0	($372,500)	($372,500)	($372,500)	($372,500)

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

Local Effect: Local revenues could decline by an estimated $203,000 in FY 1999. Expenditures are not affected.

Small Business Effect: Potential minimal effect on small businesses as discussed below.

Fiscal Analysis

State Revenues: Federal tax law provided for an exclusion of up to $5,250 in employer-provided reimbursement through tax year 1994. The estimated cost to Maryland of this provision was $1,956,000 for tax year 1993, implying tuition reimbursements of $39.1 million. Assuming the average subtraction was $2,625 (half of $5,250), there were approximately 14,900 taxpayers claiming the subtraction. If all these individuals qualify for the $500 subtraction, the $7.5 million of subtractions could result in an estimated general fund loss of $372,500. This amount is not expected to change significantly in the out-years as enrollments generally are steady and the $500 limit means that inflation in tuition will not be a factor.

This exclusion was reinstated through May 31, 1997. Therefore, the subtraction could not be claimed for tax year 1997. Assuming the federal exclusion expires as scheduled, the subtraction could be claimed for tax year 1998, resulting in an annual loss of $372,500 beginning in fiscal 1999.

Local Revenues: Local governments will lose piggyback revenues of about 54.5% of the State loss in each fiscal year. In fiscal 1999, the loss could total $203,000.

Small Business Effect: If the incentive effect of this bill causes more employees to seek reimbursement of tuition expenditures, administrative burdens and expenses of those small businesses providing reimbursements could increase. Any such increase is assumed to be minimal.

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

Fiscal Note History: First Reader - January 21, 1997
lc Revised - House Third Reader - March 26, 1997

Analysis by: David F. Roose
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710