

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 876 (Delegate Hurson, *et al.*)
Ways and Means

Income Tax - Earned Income Credit - Refunds

This bill makes the earned income credit refundable in the amount by which 20% of the federal earned income credit (EIC) exceeds State tax liability. If 20% of the federal credit does not exceed State tax liability, the current State credit of 50% of the federal credit can be claimed. The refundable portion of the credit may only be claimed against the State income tax.

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 an estimated \$46.5 million in FY 1998, increasing by about 4% annually. Expenditures would increase by \$70,000 in FY 1998 only.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	(\$46.5)	(\$48.4)	(\$50.3)	(\$52.3)	(\$54.4)
GF Expenditures	0.1	0.0	0.0	0.0	0.0
Net Effect	(\$46.6)	(\$48.4)	(\$50.3)	(\$52.3)	(\$54.4)

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

Local Effect: None. The refundable earned income credit may only be taken against the State income tax.

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

Fiscal Analysis

State Revenues: General fund revenues could decline an estimated \$46.5 million in fiscal 1998. **Exhibit 1** shows the impact of this bill, based on federal and State statistics of income data. This estimate represents the maximum revenue loss. Not all individuals who are entitled to the EIC actually claim the credit. It is assumed that the refundability under this bill will provide an incentive for virtually all who are currently taking the federal EIC to also claim the State EIC.

Exhibit 1
Fiscal Impact of 20% Refundable EIC in Tax Year 1997

<u>Federal Adjusted Gross Income Class</u>	<u>Est. MD Returns w/ EIC</u>	<u>Average Federal EIC</u>	<u>20% of Avg. Fed. EIC</u>	<u>Average State Tax</u>	<u>Average Refund</u>	<u>Additional Cost</u>
\$1 - \$5,000	53,350	735	147	2	145	7,735,750
\$5,000 - \$10,000	86,651	1,668	334	56	278	24,054,318
\$10,000 - \$15,000	62,396	2,444	489	253	236	14,712,977
\$15,000 - \$20,000	52,437	1,567	313	465	0	0
\$20,000 - \$25,000	38,321	653	131	661	0	0
\$25,000 - \$30,000	4,548	177	35	859	0	0
Total						46,503,044

Out-year growth is estimated at 4% annually.

State Expenditures: The Office of the Comptroller would incur one-time computer programming costs of \$70,000 to allow for a refundable credit and to add the credit to the return. Changes to forms and instructions would cost \$1,750.

The Department of Fiscal Services advises that if other legislation is passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This would reduce computer programming costs associated with this bill and other income tax legislation. Further, since forms and instructions are updated annually, these costs could be absorbed within existing budgeted resources.

Small Business Effect: This bill would provide an additional \$46.5 million of income for low-income taxpayers, who typically spend most of their income. Small businesses in areas with large concentrations of EIC recipients could experience sales increases. The amount of

the increased income which would be spent at small businesses and which would not simply replace State spending cannot be reliably estimated.

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

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