

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

Senate Bill 427 (Senator Haines)  
Budget and Taxation

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State and Local Income Tax Credit for Tuition Paid for  
Private Elementary and Secondary Education

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This bill creates an income tax credit for tuition paid to private elementary or secondary schools in the State. The maximum credit is \$500 against the State income tax and \$500 against the local income tax (piggyback tax). The credit is not refundable.

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

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Fiscal Summary

**State Effect:** General fund revenues could decline an estimated \$103.3 million in FY 1999 and \$72.1 million in FY 2000, increasing at 4% annually thereafter. Expenditures could be affected as described below.

(\$ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$0.0	(\$103.3)	(\$72.1)	(\$75.0)	(\$78.0)
GF Expenditures	-	-	-	-	-
Net Effect	\$0.0	(\$103.3)	(\$72.1)	(\$75.0)	(\$78.0)

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

**Local Effect:** Revenues could decline an estimated \$90.4 million in FY 1999 and \$63.1 million in FY 2000, increasing at 4% annually. Expenditures could be affected as described below.

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

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## Fiscal Analysis

**State Revenues:** An estimated 135,950 students will be attending private schools in 1998. The average private school tuition is substantially above \$1,000, so it is assumed that the maximum \$500 credit would be taken for every student. A State tax liability of \$500 implies gross income of at least \$19,000; it is assumed that virtually all families sending their children to private schools have gross income exceeding this amount. Therefore, the maximum credit would be claimed for all 135,950 students, resulting in a State revenue loss of \$68.0 million. This amount is estimated to grow by 4% annually (average annual growth of private school enrollment from 1990 to 1995).

Assuming that the credit for calendar year 1998 is claimed when returns are filed in April of 1999 and withholding is adjusted beginning in 1999, there would be no effect in fiscal 1998. The revenue loss in fiscal 1999 would be an estimated \$103.3 million; the loss in fiscal 2000 would be an estimated \$72.1 million, increasing by 4% per year.

**State Expenditures:** The Office of the Comptroller advises that expenditures of \$39,000 would be incurred for changes to the computer tax processing system. The Department of Fiscal Services advises that if other legislation is also enacted changing the Maryland individual income tax calculation, economies of scale regarding computer programming changes could be realized. This could reduce computer programming costs associated with this bill and other tax legislation.

Since this bill will provide an incentive for parents to remove their children from public schools, it is possible that savings in education expenditures could be realized, although any such amount cannot be reliably estimated at this time.

**Local Revenues:** To be able to claim the maximum piggyback credit of \$500, gross income would have to be at least \$27,150 for a family of three (based on the statewide average piggyback rate of 54.5%). Not all families with children in private schools would have a piggyback liability of \$500. The number of taxpayers with children in private school with piggyback liability under \$500 is unknown, but is expected to be a small share of the total. Assuming that 25% of families with children in private school have average piggyback liability of \$250 and the remainder can claim the full credit, the statewide local revenue loss would be \$59.5 million for tax year 1998. The fiscal 1999 revenue loss would be \$90.4 million; the loss in fiscal 2000 would be an estimated \$63.1 million, increasing by 4% per year.

**Local Expenditures:** Local government expenditures could decline by an indeterminate amount if parents remove their children from public schools.

**Small Business Effect:** Since the \$1,000 maximum credit available to taxpayers would offset a large portion of private school tuition, more parents would be likely to send their children to private schools increasing enrollment and revenues from tuition. The number of students attending private schools with fewer than 50 employees is unknown. Further, any increase in enrollment at such schools resulting from the credit cannot be reliably estimated at this time.

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

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