HB 1428

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1428 (Delegates Shriver and Rosapepe)
Ways and Means

Individual Development Accounts

This bill creates individual development accounts, into which an individual can contribute up to $3,000 per year, as long as the individual's federal adjusted gross income is $50,000 or less. The amount contributed can be subtracted from federal adjusted gross income for State income tax purposes. Funds in individual development accounts can be used for eligible educational or entrepreneurial purposes, including tuition, fees, and other expenses for attending an institution of higher education, and establishing a business. If the funds in an account are not used for eligible expenses, they must be added back to income if the individual is at least 60 years old, and two times the amount of nonqualifying expenditures must be added to income if the individual is less than 60 years old. If a withdrawal is made which is not for eligible expenses or for an unforeseeable emergency, the account ceases to be an individual development account and becomes subject to the addition modification. Trustees must file a report with the Comptroller annually.

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

Fiscal Summary

State Effect: Indeterminate decrease in general fund revenues. Expenditures would not be affected.

Local Effect: Indeterminate decrease in local revenues. Expenditures would not be affected.

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

Fiscal Analysis

State Revenues: Approximately 2,839,400 individuals will have federal adjusted gross income of $50,000 or less and could establish an individual development account, assuming that joint filers are allowed to have two accounts with federal adjusted gross income of $100,000 or less. The number of individuals who would establish an account is unknown. The revenue loss would be $150 for each $3,000 contribution to an individual development account. Each 1% of eligible individuals contributing the maximum $3,000 to an account would result in a general fund revenue loss of $4.3 million. This loss would grow by about 1.4% per year, assuming a constant number of accounts.

In 1995-96, there were approximately 219,550 Maryland residents enrolled in institutions of higher education. Assuming the income distribution of these individuals is similar to that of the general population, about 131,700 would be from families eligible to have an individual development account. If all of these individuals started an account, general fund revenues would decline about $19.8 million. This loss would be greater to the extent that individuals set up individual development accounts for future higher education expenses, as well as accounts set up for business expenses.

Local Revenues: Local revenues would decline through the piggyback tax by about 54.5% of any State revenue loss. For each 1% of eligible individuals contributing the maximum $3,000 per account, local revenues would decline $2.3 million. If those who are currently attending institutions of higher education established accounts, local revenues would decline $10.8 million.

Small Business Effect: This bill could cause the creation of more small businesses over a period of time by providing an incentive for individuals to accumulate capital for that purpose. It is likely that few businesses would be created in the first few years, but as accounts increase in value due to additional contributions and earnings, individuals could have substantial amounts of capital available. For example, an individual contributing $3,000 for ten years would accumulate about $43,500 with an 8% annual return (joint filers could accumulate twice this much). Thus, the major impact of this bill is likely to be in the long term.

Information Source(s): Comptroller's Office, Department of Fiscal Services

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