HB 1448

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1448 (Delegates Schade and Ports)
Ways and Means

Higher Education Tuition Savings Accounts

This bill creates higher education savings accounts, into which an individual can contribute up to $1,500 annually for each child for whom the individual can claim an exemption for federal income tax purposes. Such contributions may be subtracted from federal adjusted gross income for State income tax purposes. Funds in an account may only be used for tuition, fees, books, supplies, and equipment required for attendance at an institution of higher education. If the funds in an account are not used for eligible educational purposes, an amount equal to two times the nonqualifying distribution must be added to income as an addition modification for that taxable year. If a withdrawal is made which is not for eligible expenses or for an unforeseeable emergency, the account ceases to exist 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: General fund revenues could decline by an estimated $45.3 million in FY 1998; out-year growth is estimated at 1.2%, the estimated increase in children. Expenditures would not be affected.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	($45.3)	($45.8)	($46.4)	($47.0)	($47.5)
GF Expenditures	0	0	0	0	0
Net Effect	($45.3)	($45.8)	($46.4)	($47.0)	($47.5)

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

Local Effect: Local revenues could decline by an estimated $24.7 million in FY 1998. Expenditures would not be affected.

Small Business Effect: None. This bill does not directly affect small businesses.

Fiscal Analysis

State Revenues: General fund revenues could decline an estimated $45.3 million in fiscal 1998. About 80% (33,500) of graduating high school seniors plan to attend institutions of higher education annually. Assuming an average contribution of $1,000, about $33.5 million would be contributed to higher education tuition savings accounts for each class of current students, or $134 million total. This would result in a revenue loss of $6.7 million. Additionally, parents of younger children would also contribute to accounts. Assuming that two-thirds of parents of those 80% of children who will eventually attend institutions of higher education will establish savings accounts, an additional 730,000 accounts would be established. Again assuming an average contribution of $1,000, subtractions of about $730 million would be claimed, resulting in a revenue loss of about $36.5 million annually. Additional revenue losses would occur because earnings of the accounts are tax exempt. This loss would total about $2.1 million annually, assuming a 5% return on the accounts. The total loss of $45.3 million in fiscal 1998 is estimated to grow at about 1.2% annually, with the number of children.

Local Revenues: Local revenues would decline by 54.5% of any State revenue loss. Based on the above facts and assumptions, local revenues could decline by an estimated $24.7 million in fiscal 1998.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Business and Economic Development (*1995-96 Maryland Statistical Abstract*), Department of Fiscal Services

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