

Department of Legislative Services
 Maryland General Assembly

FISCAL NOTE

Revised

Senate Bill 223 (Senator Hoffman. *et al.*)

Budget and Taxation

Income Tax - Earned Income Credit - Refunds

This bill makes the earned income credit (EIC) refundable for taxpayers with one or more dependents. The refund is the amount by which 10% of the federal EIC exceeds State income tax liability for tax years 1998 and 1999, 12.5% of the federal EIC for tax year 2000, and 15% of the federal EIC for tax year 2001 and thereafter. If a taxpayer cannot claim a refund, the current State credit of 50% of the federal credit can be claimed. The refundable credit can only be claimed against the State income tax. In addition, the poverty subtraction is converted to a credit which may only be claimed if the taxpayer is not eligible for the refundable EIC. For nonresidents and part-year residents, the credit or refund must be prorated based on income.

The Governor is required to transfer \$14.5 million from the Revenue Stabilization Account to the general fund. The Spending Affordability Committee is to include a recommendation as to the fiscal prudence of accelerating the phase-in of this refundable credit in its final report of the 1999 interim.

This bill is effective July 1, 1998, and applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues could decline an estimated \$17.5 million in FY 1999. Out-year estimates reflect full implementation of the bill. General fund expenditures would increase about \$117,000 in FY 1999, although \$100,000 has been included in Supplemental Budget No. 3 for this purpose.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
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GF Revenues	(\$17.5)	(\$18.5)	(\$29.4)	(\$41.5)	(\$44.0)
GF Expenditures	0.1	0.0	0.0	0.0	0.0
Net Effect	(\$17.6)	(\$18.5)	(\$29.4)	(\$41.5)	(\$44.0)

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

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: General fund revenues could decline an estimated \$17.5 million in fiscal 1999. **Exhibit 1**, below, shows the impact of the 10% refundable credit in tax year 1998, based on federal and State statistics of income data. This revenue loss is based on the estimated number of taxpayers who would be eligible for this credit, and thus the maximum liability for the State. It is probable that not all taxpayers who are eligible for the EIC would claim it. In four other states which have a refundable EIC, an average of 84.1% of those eligible for the federal credit claimed the State credit in the first year of the program. If this participation rate is achieved in Maryland, the revenue decline would be \$14.7 million. The potential exists for a much higher participation rate, even in the first year (Minnesota's first year participation rate was 93.9%), and an actual revenue loss much closer to the \$17.5 million.

State Expenditures: The Office of the Comptroller would incur one-time computer programming costs of \$117,000 to allow for a refundable credit, to add the credit to the return, and to convert the poverty subtraction to a credit. Supplemental Budget No. 3 includes \$100,000 for this purpose, contingent on the enactment of this bill (or Senate Bill 223).

The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized, since there will be changes to the income tax processing system due to the 1997 income tax reduction which is phased in through 2002.

Exhibit 1
Fiscal Impact of 10% Refundable EIC in Tax Year 1998

<u>Federal Adjusted Gross Income Class</u>	<u>Est. MD Returns w/ EIC</u>	<u>Average Federal EIC</u>	<u>10% of Avg. Fed. EIC</u>	<u>Average State Tax</u>	<u>Average Refund</u>	<u>Additional Cost</u>
\$0	1,877	945	95	288	0	0
\$1 - \$1,000	6,141	186	19	238	0	0
\$1,000 - \$2,000	11,957	374	37	1	37	439,580
\$2,000 - \$3,000	13,592	618	62	1	61	832,787
\$3,000 - \$4,000	13,630	860	86	1	85	1,159,330
\$4,000 - \$5,000	15,787	1,144	114	2	113	1,776,894
\$5,000 - \$6,000	19,194	1,201	120	4	116	2,222,875
\$6,000 - \$7,000	21,106	1,465	146	31	115	2,431,794
\$7,000 - \$8,000	18,616	1,644	164	68	96	1,788,043
\$8,000 - \$9,000	21,719	1,662	166	92	74	1,615,513
\$9,000 - \$10,000	14,665	2,481	248	129	120	1,752,932
\$10,000 - \$11,000	13,161	2,694	269	147	123	1,616,161
\$11,000 - \$12,000	13,916	2,645	264	165	99	1,383,128
\$12,000 - \$13,000	14,160	2,498	250	177	73	1,033,207
\$13,000 - \$14,000	14,264	2,290	229	215	14	196,313
\$14,000 - \$15,000	14,120	2,114	211	230	0	0
\$15,000 - \$16,000	12,538	1,948	195	253	0	0
\$16,000 - \$17,000	12,958	1,771	177	284	0	0
\$17,000 - \$18,000	11,049	1,527	153	329	0	0
\$18,000 - \$19,000	11,426	1,380	138	367	0	0
\$19,000 - \$20,000	10,211	1,175	117	426	0	0
\$20,000 - \$25,000	43,312	671	67	572	0	0
Over \$25,000	5,143	189	19	2,271	0	0
Sub Total						18,248,558
Reduction for those without dependents						743,945
Total						17,504,613

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates),
Department of Legislative Services

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