SB 523

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 523 (Senator Conway, *et al.*)
Budget and Taxation

Poverty Level Taxpayers - Refundable Income Tax Credit for Employment-Related Household and Dependent Care Expenses

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This bill creates a refundable credit against the individual income tax for 10% of "employment-related household and dependent care expenses" paid by "eligible low-income taxpayers". An eligible low-income taxpayer is one who is eligible for the poverty subtraction modification. Taxpayers claiming this credit may not claim the subtraction modification for household and dependent care services.

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 by an estimated $1.6 million in FY 1999, increasing by approximately 2% in the out-years. Expenditures could increase $72,000 in FY 1999 only.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($1,643,400)	($1,676,300)	($1,709,800)	($1,744,000)	($1,778,900)
GF Expenditures	72,000	0	0	0	0
Net Effect	($1,715,400)	($1,676,300)	($1,709,800)	($1,744,000)	($1,778,900)

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

Local Effect: Minimal increase in revenues. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

State Revenues: In 1995, an estimated $15.6 million of employment-related household and child care expenses were subtracted from income by taxpayers with federal adjusted gross income of $12,590 or less (the poverty level for a three person household). This subtraction has grown at about 2% annually. In 1998, therefore, approximately $16.6 million would be subtracted. The 10% credit would reduce revenues by $1.7 million in fiscal 1999. The elimination of the subtraction for individuals claiming the credit would result in a minimal revenue increase since many of these taxpayers have no taxable income with or without this subtraction.

State Expenditures: The Office of the Comptroller would incur $72,000 of computer programming costs to allow for a refundable credit and to add the credit to the return.

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.

Local Revenues: Local revenues will increase a minimal amount for those taxpayers who would have taxable income except for the subtraction for household and child care expenses. Because taxpayers claiming the credit are ineligible for the subtraction, they will have taxable income but would pay no State taxes because of the credit. Because they have taxable income, however, they would have a local income tax liability. This increase is expected to be minimal.

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

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