

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 1075 (Delegate Ports. *et al.*)

Ways and Means

**School Tuition Organizations and Public School Activities -
State Income Tax Credit**

This bill provides a credit against the individual and corporate income taxes for amounts contributed to school tuition organizations and for amounts paid to a public school for a student to participate in school activities. The credit may also be claimed for voluntary cash contributions to a public school for the purchase of equipment needed for school activities, or the value of such donated equipment. School tuition organizations are charitable organizations which allocate at least 90% of their annual revenue for scholarships or grants to children to allow them to attend any qualified school. The credits, which may be carried forward for up to five years, are the lesser of 50% of the eligible contributions or \$50.

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

Fiscal Summary

State Effect: Indeterminate reduction in general fund and Transportation Trust Fund (TTF) revenues. Expenditures would not be affected.

Local Effect: Indeterminate revenue increase. Expenditures would not be affected.

Small Business Effect: Meaningful.

Fiscal Analysis

State Revenues: General fund and Transportation Trust Fund (TTF) revenues would decline by an indeterminate amount. Similar legislation was enacted in Arizona, which allowed a maximum credit of \$500 for contributions to school tuition organizations and a maximum credit of \$200 for contributions to public schools for extracurricular activities. It is expected that the cost of these credits will total \$60 million to \$70 million. Based on Arizona's program, the revenue loss in Maryland could be about \$8 million, given that Maryland's population is about 23% greater than Arizona's and the maximum credit would be about 10% of Arizona's.

Credits claimed against the corporate income tax would result in a loss to the general fund and the TTF; credits claimed against the individual income tax would result in a loss to the general fund.

Local Revenues: Local revenues would decline for those credits claimed against the corporate income tax, since a portion of the corporate income tax is distributed to local governments through the TTF. Local revenues would increase for those credits claimed against the individual income tax by taxpayers who itemize deductions, since deductions must be reduced by any contributions eligible for this credit. This would increase taxable income, and therefore local revenues (local revenues would not decline because of the credit since it may only be claimed against the State income tax). This increase is expected to be minimal (about \$220,000 if the State credits total \$8 million).

Small Business Effect: School tuition organizations could receive substantial increases in revenue, and this bill could cause the creation of more school tuition organizations (the number of school tuition organizations in Arizona increased from 4 to over 40 after their legislation was enacted).

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

Fiscal Note History: First Reader - March 10, 1998

lc

Analysis by: David F. Roose

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710