

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Revised

House Bill 66 (Delegate Hixson. *et al.*)

Ways and Means

Income Tax - Earned Income Credit - Refunds

This bill makes the earned income credit (EIC) refundable for taxpayers with one or more dependents in the amount by which 15% of the federal earned income credit exceeds State income tax liability. If 15% of the federal EIC does not exceed State tax liability, 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.

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 \$35.8 million in FY 1999. Out-year estimates assume 1% growth in EIC recipients and 2% growth in the amount of the credit. 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
GF Revenues	(\$35.8)	(\$37.4)	(\$39.3)	(\$41.5)	(\$43.7)
GF Expenditures	0.1	0.0	0.0	0.0	0.0
Net Effect	(\$35.9)	(\$37.4)	(\$39.3)	(\$41.5)	(\$43.7)

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 \$35.8 million in fiscal 1999. **Exhibit 1**, below, shows the impact of this bill 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 \$31.1 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 \$37.0 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 15% 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>15% of Avg. Fed. EIC</u>	<u>Average State Tax</u>	<u>Average Refund</u>	<u>Additional Cost</u>
\$0	1,877	945	142	288	0	0
\$1 - \$1,000	6,141	186	28	238	0	0
\$1,000 - \$2,000	11,957	374	56	1	55	663,165
\$2,000 - \$3,000	13,592	618	93	1	92	1,252,591
\$3,000 - \$4,000	13,630	860	129	1	128	1,745,547
\$4,000 - \$5,000	15,787	1,144	172	2	170	2,679,881
\$5,000 - \$6,000	19,194	1,201	180	4	176	3,375,173
\$6,000 - \$7,000	21,106	1,465	220	31	188	3,977,378
\$7,000 - \$8,000	18,616	1,644	247	68	178	3,318,177
\$8,000 - \$9,000	21,719	1,662	249	92	157	3,419,975
\$9,000 - \$10,000	14,665	2,481	372	129	244	3,572,337
\$10,000 - \$11,000	13,161	2,694	404	147	257	3,388,677
\$11,000 - \$12,000	13,916	2,645	397	165	232	3,223,273
\$12,000 - \$13,000	14,160	2,498	375	177	198	2,801,756
\$13,000 - \$14,000	14,264	2,290	344	215	128	1,829,828
\$14,000 - \$15,000	14,120	2,114	317	230	87	1,227,685
\$15,000 - \$16,000	12,538	1,948	292	253	39	492,879
\$16,000 - \$17,000	12,958	1,771	266	284	0	0
\$17,000 - \$18,000	11,049	1,527	229	329	0	0
\$18,000 - \$19,000	11,426	1,380	207	367	0	0
\$19,000 - \$20,000	10,211	1,175	176	426	0	0
\$20,000 - \$25,000	43,312	671	101	572	0	0
Over \$25,000	5,143	189	28	2,271	0	0
Sub Total						36,968,322
Reduction for those without dependents						(1,173,194)
Total						35,795,128

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

Fiscal Note History: First Reader - February 9, 1998
tncs Revised - House Third Reader - April 8, 1998

Analysis by: David F. Roose
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710