HB 126

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 126 (Delegate Leopold, *et al.*)
Ways and Means

Maryland Higher Education Investment Program - Income Tax Subtraction Modification

This bill creates an income tax subtraction modification for the amount of the benefit provided to a qualified beneficiary under a higher education investment contract that is included in federal adjusted gross income. The subtraction may only be claimed for students attending Maryland institutions of higher education.

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

Fiscal Summary

State Effect: Minimal general fund revenue loss until about FY 2010, at which point revenue losses will gradually increase to about $7.5 million in FY 2016. Expenditures will not be affected.

Local Effect: Local revenues would decline by about 55% of any general fund revenue loss through the local income tax. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

Background: The Maryland Higher Education Investment Program, or Maryland Prepaid College Trust, was established in 1997. This program allows parents and others to save money for students' tuition expenses. Costs for contracts purchased in 1998 have yet to be determined. The program anticipates 10,000 contracts will be purchased in 1998.
The intent of this bill is to allow the subtraction modification only for those who attend Maryland institutions of higher education. An estimated 75% of Maryland high school

graduates enrolling full-time at institutions of higher education attend Maryland schools.

State Revenues: Since this bill creates a subtraction modification for the benefits received under the prepaid tuition program, there will not be a significant fiscal impact until beneficiaries of the contracts enroll in college. The revenue loss will depend on the number of participants, cost of the contracts, returns on the program's investments, the amount of benefits used for eligible purposes, and the taxable income of the beneficiaries.

A majority of contracts will be purchased for young children, so a significant impact will not occur until about fiscal 2010. The cost will increase to about $7.5 million annually in about fiscal 2016, by which point most of the contracts purchased in 1998 will have been fully realized. From that point on, costs will rise with the increase in contracts issued and growth of the program's assets. Among other assumptions, an annual return of 7.5% on the program's investments and 10,000 contract sales a year are assumed for this estimate. To the extent that this bill creates an incentive for students to attend Maryland schools, the revenue loss could increase.

Local Revenues: Local revenues will decline by about 55% of any State revenue loss through the local income tax. Any losses would therefore be minimal until about fiscal 2010.

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

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