**HB 257**

# Department of Legislative Services
Maryland General Assembly

## FISCAL NOTE
## Revised

House Bill 257 (The Speaker, *et al.*)
(Administration)
Ways and Means

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**Income Tax - Subtraction Modification for Maryland Higher Education Investment Program Earnings**

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This amended Administration bill creates an income tax subtraction modification for the amount of the benefit provided to a beneficiary under a higher education investment contract that is included in federal adjusted gross income. This subtraction applies for benefits or refunds from the program used for attendance at in-state or out-of-state institutions.

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 $10 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:** A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

## 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.

**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 $10 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.

**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.

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

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| **Fiscal Note History:** | First Reader - February 3, 1998 |
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