SB 268

Department of Legislative Services

Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 268 (Senator Miller, *et al.*)
Budget and Taxation

Maryland Higher Education Investment Program - Income Tax Subtraction Modification for Contributions

This bill provides a subtraction modification for the individual income tax for amounts contributed for the purchase of a prepaid tuition contract, up to $2,500 annually. It also provides for an addition modification for any refunds from the program which are not applied to charges imposed by an institution of higher education. The addition modification may not exceed the cumulative amount of the subtraction modification taken under this bill.

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 $1.1 million in FY 1999, increasing by about $800,000 annually. Expenditures would not be affected.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($1.1)	($1.8)	($2.6)	($3.4)	($4.3)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($1.1)	($1.8)	($2.6)	($3.4)	($4.3)

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

Local Effect: Local revenues could decline by an estimated $600,000 in FY 1999. 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 student's tuition expenses. Costs for contracts purchased in 1998 have yet to be determined. There will be three types of contracts: lump sum payments, five-year payments, and monthly payments depending on the age of the child.

State Revenues: General fund revenues would decline by an estimated $1.1 million in fiscal 1999 based on the following facts and assumptions:

- 7,500 four-year contracts will be sold in 1998;
- 2,000 two-plus-two contracts will be sold;
- 500 community college contracts will be sold;
- 36% of all contracts will be lump-sum payments, at $16,400 for four-year contracts, $12,400 for two-plus-two contracts, and $4,200 for community college contracts;
- 64% of all contracts will be by installment payments, at $187 per month for four-year contracts, $150 per month for two-plus-two contracts, and $50 per month for community college contracts;
- monthly payments will not increase once a contract is purchased; and
- each new cohort purchasing contracts will pay a total of 10% more, reflecting additional contracts sold and increases in cost.

In 1998, $44.3 million will be spent on 2,700 lump-sum four-year contracts, and $10.8 million will be spent on 4,800 installment contracts. About $11.2 million will be spent on two-plus-two contracts ($8.9 million lump-sum, $2.3 million in installments), and $948,000 will be spent on community college contracts ($756,000 lump-sum, $192,000 in installments). Total contributions for contracts will be $67.2 million.

Because the subtraction is limited to $2,500, all purchasers of lump-sum contracts would only be able to subtract that amount. Purchasers of installment contracts would generally not be affected by the limitation. Due to the limitation, approximately $22.3 million of contributions could be subtracted. At the top 4.95% marginal rate for tax year 1998, this would result in a fiscal 1999 general fund revenue loss of $1.1 million.

Each year, total contributions eligible for the subtraction will increase by about $15 million or more, and the revenue loss will increase by about $800,000 per year. At some point in the out-years, the rate of increase of the revenue loss will slow as a result of contract cancellations (due to withdrawal because of economic hardship, death of the beneficiary, etc.). A canceled contract would result in a refund, which would then be subject to the addition modification. The rate of increase would slow more when contracts are due to be redeemed but beneficiaries do not pursue higher education.

Local Revenues: Local revenues will decline by about 55% of any State revenue loss through the local income tax, or about $600,000 in fiscal 1999.

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

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