

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 564 (Delegate Stocksdales. *et al.*)

Ways and Means

Take Credit for Learning - Income Tax Credit and Subtraction Modification for Education Expenses

This bill creates an income tax credit and subtraction modification for education-related expenses incurred outside the regular school day or school year. An individual with federal adjusted gross income (FAGI) of up to \$33,500 may claim a credit of up to \$1,000 for each child and \$2,000 for each income tax return. The credit is refundable. The subtraction modification for education expenses is up to \$1,500 for each dependent in kindergarten to grade 6 and \$2,500 for each dependent in grades 7 to 12. The subtraction is not restricted by the income of the taxpayer, although, individuals who are also claiming the credit must reduce the qualified expenses by the amount of the credit claimed.

The bill takes effect July 1, 1999 and applies to all taxable years beginning after December 31, 1998.

Fiscal Summary

State Effect: Indeterminate but potentially significant decrease in general fund revenues (could be as much as \$100 million a year). No effect on expenditures.

Local Effect: Indeterminate but potentially significant decrease in local revenues. No effect on expenditures.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: Education-related expenses include fees or tuition for instruction, materials and equipment, transportation expenses, and up to \$200 in expenses for personal computer hardware and educational software. Instruction outside the regular school day or school year includes tutoring, driver's education, music and art lessons, after school enrichment programs, and summer camps. Fees and tuition for enrollment at an elementary or secondary school during the regular school year or school day are not considered qualified expenses.

State Effect: According to the income tax simulation model, there are about 393,530 returns with a dependent(s) who could qualify under the bill for the credit. These are returns with FAGI of \$33,500 or less claiming one or more dependents. For every 10% of returns that claim the full credit amount, general fund revenues would decrease by \$58.5 million. For every 33% that claim half the credit, general fund revenues would decrease by \$97.5 million.

According to the Maryland State Department of Education, in 1997 there were 538,600 students enrolled in kindergarten through grade 6 and 402,600 children enrolled in grades 7 through 12. For every 10% of students claimed as dependents and for whom the full subtraction amount is taken, general fund revenues could decrease by \$8.8 million. For every 33% of students claimed as dependents and for whom half the subtraction amount is taken, general fund revenues could decrease by \$14.7 million. The cost for this component would be reduced to the extent that some of the expenses would be reduced by the credit for those returns that are also claiming the credit.

Since the subtraction is not restricted by income and qualified expenses include fees, equipment, transportation expenses, and camp costs, it is reasonable to assume that a large number of taxpayers will take the subtraction and the amount of qualified expenses could easily total the maximum allowed for the subtraction: \$1,500 for dependents from kindergarten to grade 6 and \$2,500 for grades 7 through 12.

The combined effect of 10% claiming the full credit and subtraction is \$67.3 million and the effect of 33% claiming half the allowed amount is \$112.2 million. Thus, the effect of the bill is a potentially significant reduction in general fund revenues.

The Office of the Comptroller would incur one-time computer programming costs of \$74,200 to add the credit to the tax forms and to make it refundable, and \$300 in expenses to modify forms and instructions. 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. In addition, since forms and instructions are updated annually, the costs for form changes resulting from this bill could be absorbed within existing resources.

Local Revenues: Local piggyback revenues would decline by 55% of 5% of the subtraction taken for education-related expenses. Based on the examples used above, the reduction could be \$5 million for every 10% claiming the full amount, or \$8.3 million for every 33% claiming half the amount.

Small Business Effect: To the extent that the bill increases participation in education-related activities outside of the school day or school year, small business providers of such activities will benefit.

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

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