Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

House Bill 7 (Delegate Shriver, *et al.*)
Ways and Means

Income Tax - Credit for Child and Dependent Care Expenses

This bill creates a non-refundable credit against the State income tax for qualified child and dependent care expenses. The credit is in addition to the dependent care subtraction modification allowed under current law. The State credit for child and dependent care expenses is up to 25% of the federal child and dependent care credit claimed by the individual for that taxable year, but it cannot exceed the State income tax for the taxable year. The credit is available to qualified individuals whose federal adjusted gross income (FAGI) is at or below $40,000, or $20,000 if married filing separately; the full credit is available to those with FAGI of $30,000 or less ($15,000 or less if married filing separately), and it phases out for incomes between $30,000 and $40,000 ($15,000 and $20,000 if married filing separate returns).

The bill requires the Office of the Comptroller to study the effectiveness of the tax credit program, including identifying the individuals claiming the credit, the appropriateness of the credit amount, and the cost-effectiveness of the credit in achieving State goals. The Comptroller must report the findings of the study to the House Committee on Ways and Means and the Senate Budget and Taxation Committee by December 1, 2001.

The bill takes effect July 1, 1999 and is applicable to all tax years beginning after December 1, 1999.

Fiscal Summary

State Effect: General fund revenues would decrease by $4.1 million in FY 2001, which reflects the impact of tax year 2000. Future year revenue losses grow by 2% annually. Expenditures would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$0.0	($4.1)	($4.2)	($4.3)	($4.4)
GF Expenditures	0	0	0	0	0
Net Effect	$0.0	($4.1)	($4.2)	($4.3)	($4.4)

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

Local Effect: None. The credit is applied against the State tax liability.

Small Business Effect: Minimal.

Fiscal Analysis

Background:

Federal Tax Treatment of Dependent Care Expenses:

For federal income tax purposes, there are two existing "tax breaks" for dependent care expenses: the dependent care credit and the employer-provided dependent care spending account.

The dependent care credit is allowed for child care expenses for children through age 12 or day care expenses for disabled spouses or dependents. The credit is allowed for up to $2,400 in expenses for one qualified dependent and $4,800 for two or more qualified dependents and is limited by the "earned income" of the taxpayer. Thus, if a parent has no earned income (a stay-home parent), the family cannot claim the credit. The credit amount is a percentage of the allowed expenses (ranging from 20% to 30%).

The employer-provided dependent care spending account allows an employee to receive up to $5,000 tax-free each year, to be placed in a "flexible spending account" from which the employee gets reimbursed for dependent care expenses. The amount placed in a dependent care spending account reduces the amount that may be claimed under the dependent care credit, so that an individual making full use of a dependent care spending account does not get to claim the credit.

Maryland's Tax Treatment of Dependent Care Expenses:

Maryland currently allows an income tax subtraction modification for qualified child and dependent care expenses of up to $2,400 for one dependent or $4,800 for two or more dependents. Maryland's treatment of dependent care expenses is tied to the federal dependent care credit, in that only expenses allowed in computing the federal dependent care credit are allowed in calculating Maryland's subtraction modification. In addition, amounts contributed to a dependent care spending account are excluded from Maryland taxable income since the starting point for determining Maryland taxable income is federal adjusted gross income (which excludes that amount).

State Revenues: Based on the federal and Maryland Statistics of Income data on Maryland taxpayers who claimed the federal child and dependent care credit in 1996, it is estimated that the State credit would result in a general fund revenue decrease of $4.1 million in fiscal 2001. The estimate reflects the credits taken by taxpayers for expenses incurred in tax year 2000. It assumes that 40,670 taxpayers will claim the credit and the average credit claimed will be $101. Out-year revenue losses increase by 2% annually.

State Expenditures: The Office of the Comptroller would incur $74,500 in computer programming and form changes costs. The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized, since there will be change to the income tax processing system due to the 1997 income tax reduction which is phased in through 2002.

Information Source(s): Maryland State Department of Education, Comptroller of the Treasury (Bureau of Revenue Estimates), Baltimore County Police Department, Cabin John, Interagency Coordinating Board for Community Use of Public Facilities, Baltimore County Parks and Recreations, Department of Legislative Services

Fiscal Note History:	First Reader - February 9, 1999
dmm/jr	Revised - House Third Reader - March 31, 1999
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