

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 8 (Senator Miller. *et al.*)

Budget and Taxation

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

This emergency bill modifies the current subtraction modification for the individual income tax for contributions made towards a Maryland Higher Education Investment Contract. The purchaser may subtract up to \$2,500 each year until the full value of the contract has been allowed as a subtraction. The bill also provides that the subtraction modification applies to each prepaid tuition contract purchased. Under current law, the cost of the contract cannot be carried forward and the subtraction modification is capped at \$2,500 regardless of the number of contracts purchased.

The bill is applicable to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$230,700 in FY 2000 and \$541,600 in FY 2001. Out-year estimates reflect the cumulative effect of the legislation. Expenditures would not be affected.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	(\$230,700)	(\$541,600)	(\$782,300)	(\$1,001,800)	(\$1,370,800)
GF Expenditures	0	0	0	0	0
Net Effect	(\$230,700)	(\$541,600)	(\$782,300)	(\$1,001,800)	(\$1,370,800)

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

Local Effect: Local piggyback revenues would decline by approximately \$130,800 in FY 2000, increasing to \$793,600 in FY 2004. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

Background: Chapter 111 of 1997 (HB 492) established the Maryland Higher Education Investment Program as a means to pay for the cost of tuition in advance of enrollment at an institution of higher education in Maryland. An income tax subtraction modification of up to \$2,500 for the contributions made to these contracts was authorized under Chapter 572 of 1998 (SB 268).

The prepaid tuition contracts are categorized by type of institution (4-year institution or community college) and duration of coverage. The cost of the contract depends on the type, duration, and the age of the beneficiary when the contract is purchased. Contract prices increase the older the intended beneficiary. The table below provides the 1998 average price of contracts within each category.

1998 Average Contract Prices

<u>Duration</u>	<u>1998 Average Price of Contract</u>
4 Years of University	\$16,687
3 Years of University	\$12,329
2 Years of University	\$8,248
1 Year of University	\$4,136
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2 yrs Community College+2 yrs University	\$8,280
Community College	\$4,200

Source: Maryland Prepaid College Trust

State Revenues: In 1998, the first year that contracts were offered, 1,102 contracts were purchased. Contracts can be purchased outright by making a lump-sum payment or purchasers may make monthly contributions over a pre-determined period. Under current law, purchasers of lump sum contracts are able to take the \$2,500 subtraction in the taxable year of purchase, but are not able to take the subtraction for subsequent years. In addition, applicants who purchase multiple contracts would not be able to take the subtraction for more than 1 contract. Based on the current distribution of contracts purchased, 20% are “multiple” contracts and do not benefit from the subtraction modification under current law.

Based on the Maryland Prepaid College Trust’s assessment that participation in the program

would increase substantially in 1999, to a total of 10,000 contracts purchased by the end of the enrollment period in June 1999, and level off to 6,500 in subsequent years, it is estimated that the bill would result in a decrease in general fund revenues of approximately \$230,733 in fiscal 2000 and \$541,589 in fiscal 2001. Future year estimates reflect the cumulative effect of the legislation.

Local Revenues: Local piggyback revenues would decline as a result of the decrease in State income taxes. County revenues would fall by about \$130,828, \$310,286, \$452,911, \$579,982, and \$793,625 for fiscal years 2000 through 2004, respectively.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland's Prepaid College Trust, Maryland Higher Education Commission, Department of Legislative Services

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