

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 442 (Senator Conway)

Budget and Taxation

Income Tax - Support of Children by Noncustodial Parents

This bill creates an income tax subtraction modification equal to 50% of the child support payment made by a noncustodial parent if the noncustodial parent is not able to claim a personal exemption for the child for whom support payment is made. The subtraction for each child may not exceed the personal exemption amount for the taxable year: \$1,850 for tax year 2000, \$2,100 for tax year 2001, and \$2,400 for tax years 2002 and beyond.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$19.5 million in FY 2001. Future years reflect 1% growth in parents claiming the credit and 5% growth in payments. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$19.5)	(\$21.9)	(\$23.0)	(\$24.4)	(\$25.7)
GF Expenditures	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Effect	(\$19.5)	(\$21.9)	(\$23.0)	(\$24.4)	(\$25.7)

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

Local Effect: Local government revenue decrease of approximately \$10.9 million in FY 2001.

Small Business Effect: None.

Analysis

Current Law: Child support payments are not deductible from income for the State income tax.

Background: Under current federal and State income tax law, child support payments are not deductible from income. Under federal law, one parent, usually the custodial parent, is able to take a personal exemption for each dependent child. The noncustodial parent may claim the exemption if: (1) the custodial parent signs a written agreement (IRS Form 8332, for example) releasing the claim to an exemption for the child; or (2) a decree or agreement executed before 1985 provides that the noncustodial parent is entitled to the exemption and the parent provides at least \$600 for the child's support during the year.

All support payments made by a noncustodial parent are deemed to have been spent on support of the child. If the noncustodial parent has been late in child support payments and makes them up in a later year, the late payments are not considered to be support payments in either the year they were due or the year in which they were paid, but are rather considered to be reimbursements to the custodial parent for the amount spent supporting the child.

A noncustodial parent may deduct medical expenses paid for a child, unless more than one-half of the child's support is received under a multiple support agreement.

State Fiscal Effect: The Child Support Enforcement Administration within the Department of Human Resources (DHR) provides assistance in locating noncustodial parents and establishes and enforces child support orders. According to the Maryland Child Support Enforcement Administration, there were approximately 97,000 parents that paid child support in fiscal 1998. The amount collected was approximately \$341 million. In fiscal 1999 there were approximately 102,000 parents that paid child support and the amount collected was approximately \$341 million. According to national statistics and DHR, these figures represent approximately 70% of all child support payments made by noncustodial parents.

General fund revenues would decrease by approximately \$19.5 million in fiscal 2001 based on the following facts and assumptions:

- The average child support payment in fiscal 1998 was \$3,515; in fiscal 1999 it was \$3,667.
- 100% of noncustodial parents paying child support would claim the credit.
- Half of the payments are made for one child and half of the payments are for two or more children.
- The number of parents claiming the credit increases by 1% annually and the

amount of the average payment increases by 5% annually.

Local Revenues: Local revenues would decrease by approximately 55% of the total State loss. Based on the estimate above, it would be approximately \$10.9 million in fiscal 2001.

Additional Information

Prior Introductions: This bill was introduced as HB 1088 during the 1999 session. It received an unfavorable report by the House Ways and Means Committee and was referred to interim study.

Cross File: HB 982 (Delegate Dobson, *et al.*) - Ways and Means.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Human Resources, Judiciary, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2000
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