

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

House Bill 1397
Ways and Means

(Delegates Healey and Hixson)

**Income Tax Subtraction Modification for Computer Equipment and Textbooks
Donated to Schools**

This bill provides a subtraction modification under the Maryland income tax to taxpayers in an amount equal to: (1) the value of computer equipment or textbooks donated by the taxpayer to a private or parochial elementary or secondary school located in the State that does not have an endowment greater than \$1 million or a public elementary or secondary school located in the State; and (2) the value of new textbooks that the taxpayer donates during the school year to nonpublic elementary or secondary schools that meet specified requirements.

The subtraction modification is in addition to any itemized deduction allowed for federal purposes for the donation of the equipment.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) revenue decrease beginning in FY 2002. The extent of any decrease depends on the number of persons who donate textbooks and/or computer equipment and the value of the items donated.

Local Effect: Local government revenues would decline as a result of both individual and corporate taxpayers claiming the subtraction proposed in the bill.

Small Business Effect: Minimal.

Analysis

Bill Summary: In order to be eligible for the subtraction modification, the computer and any accompanying hardware, software, or components must be no more than two years old and must have a value, as proven by cost records from a donating manufacturer or a sales receipt, that exceeds \$1,000 for new equipment or \$500 for used equipment.

Also, the textbooks must be donated to a nonpublic elementary or secondary school that: (1) holds a certificate of approval from or is registered with the State Board of Education; (2) does not charge more tuition to a student than the statewide average per pupil expenditure by the local education agencies, as calculated by the State Department of Education (MSDE), with appropriate exceptions for special education students as determined by MSDE; and (3) complies with Title VI of the Civil Rights Act of 1964, as amended.

Current Law: No subtraction modification of this type exists.

State Fiscal Effect: The cost of the bill depends on the number of persons who donate textbooks and/or computer equipment and the value of the items donated, and cannot be reliably estimated at this time. However, depending on the value of textbooks and computer equipment donated, and the number of individuals donating, the revenue decrease could be significant.

Subtractions taken on personal income tax returns would reduce general fund revenues by 4.8% of the amount of the subtraction. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, subtractions taken on corporate income tax returns would reduce general fund revenues by 75% of 7% of the amount of the subtraction taken, and TTF revenues would be reduced by 25% of 7% of the amount of the subtraction taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of subtractions expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

The number of computers and textbooks which would be donated as a result of this bill cannot be reliably estimated. Given the rapid advancement of computer technology and the profusion of companies selling computers, however, a large percentage of computers currently in use are worth less than \$1,000. Each donation of \$1,000 of computer equipment or textbooks in tax year 2001 would result in a revenue loss of \$48 for an individual income tax taxpayer; each such donation for a corporate income tax taxpayer would result in a revenue loss of \$70, of which about \$17.50 would be a loss to the TTF.

Local Fiscal Effect: Local government revenues would decline as a result of both individual and corporate taxpayers claiming the subtraction proposed in the bill.

Additional Information

Prior Introductions: A similar bill was introduced as HB 391 in the 1999 session. It passed third reading in the House. No action was taken in the Senate.

Cross File: None.

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

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Analysis by: Michael Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510