

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 511
Ways and Means

(Delegate Boutin, *et al.*)

Income Tax - Credit for Contributions to School Tuition Organizations

This bill provides an income tax credit equal to 100% of the amount of voluntary monetary contributions, up to a \$500 maximum (\$250 for married couples filing separate returns), made by individuals or corporations to a school tuition organization. Any excess amount not used in a tax year may be carried forward for up to five years. A school tuition organization is defined as a charitable organization that allocates at least 90% of its revenue for education scholarships or tuition grants to children to allow them to attend any qualified private school of their parents' choice and without limiting availability to only students of one school. An addition modification is required in the amount of any contributions made.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: Potentially significant decrease in general fund and Transportation Trust Fund (TTF) revenues. The actual impact depends on a number of factors including the number of taxpayers who make contributions, their income tax liability and the amount of contributions made. For illustrative purposes, if 25% of eligible taxpayers, excluding married filing separately or corporate, general fund revenues would decrease by approximately \$200 million (\$7.9 million for every 1% of taxpayers claiming the full amount of the credit).

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. Seventy-five percent of corporate tax revenues are distributed to the general fund, and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Minimal.

Analysis

Current Law: No tax credit of this type exists under the Maryland income tax.

Background: Arizona, Pennsylvania, and Illinois have recently enacted education related income tax credits.

In tax year 1999 there were approximately 847,000 children in Maryland public schools and an additional 139,000 in private schools.

State Fiscal Effect: The actual cost of the bill cannot be reliably estimated and depends on a number of factors including the number of taxpayers who make contributions, their income tax liability, and the amount of contributions made.

For all personal income tax returns filed in tax year 2000 (other than married filing separately), 1,666,793 had an income tax liability of \$500 or more. Due to the nature of this particular bill, all taxpayers are potentially eligible to claim this credit. Therefore the potential exposure to general fund revenues of all these taxpayers claiming the credit would be approximately \$833.4 million (before the addition modification).

For tax year 2000, there were 59,855 returns filed that were married filing separately that had an income tax liability of \$250 or more. If all of these taxpayers took the credit, general fund revenues would decrease by approximately \$15.0 million. After the addition modification, the cost would be approximately \$14.3 million.

However, the extent to which the eligible universe is reduced and by how much, cannot be estimated because it cannot be estimated how many taxpayers would or would not choose to participate in such a program.

To illustrate the potential costs of this legislation, if 50% of taxpayers (based on 2000 data, excluding married filing separately) claimed the maximum credit, it would result in a general fund revenue decrease of approximately \$400 million; 25% participation would result in a decrease of approximately \$200 million. There would be a general fund decrease of approximately \$7.9 million for every 1% of taxpayers claiming the full amount of the credit.

In tax year 1999, approximately 14,830 corporate income tax returns were filed with income tax liability of at least \$500. If all corporations were able to claim the maximum

credit, general fund revenues would decrease by approximately \$5.6 million and TTF revenues would decrease by approximately \$1.9 million.

Of credits claimed by corporations, 75% of the credit would be a loss of general fund revenue and 25% would be a loss of TTF revenue. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

The Office of the Comptroller advises that it would incur one-time computer programming costs of \$42,400 to add the credit to the tax forms. The Department of Legislative Services advises that since forms and instructions are updated annually, the costs for form changes resulting from this bill could be absorbed within existing resources.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% are distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 22, 2002
ncs/mdr

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