

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 565 (Delegate Dobson, *et al.*)
 Ways and Means

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: \$2,400 for tax years 2002 and beyond.

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

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$21.8 million in FY 2003. Future years reflect 1% growth in parents claiming the credit and 3% growth in payments. No effect on expenditures.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$21.8)	(\$22.4)	(\$23.4)	(\$24.3)	(\$25.3)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$21.8)	(\$22.4)	(\$23.4)	(\$24.3)	(\$25.3)

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

Local Effect: Local government revenue decrease of approximately \$12.4 million in FY 2003.

Small Business Effect: None.

Analysis

Current Law: 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 administration, approximately 97,000 noncustodial parents paid child support in fiscal 1998, 102,000 in fiscal 1999, and 108,001 in fiscal 2001. The amount collected was approximately \$341 million in fiscal 1998, \$374 million in fiscal 1999, and \$401.8 million in fiscal 2001, respectively. (For fiscal 2000, no data was available on the number of parents paying, however, approximately \$387.4 million was collected.) According to national statistics and DHR, these figures represent approximately 70% of all child support payments due by noncustodial parents.

General fund revenues would decrease by approximately \$21.8 million in fiscal 2003 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; in fiscal 2000 it was \$3,690; in fiscal 2001 it was \$3,720.
- 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 3% annually.

Local Revenues: Local revenues would decrease by approximately 2.8% of the total State subtraction taken. Based on the estimate above, it would be approximately \$12.4 million in fiscal 2003.

Additional Information

Prior Introductions: This bill was introduced as HB 932 in the 2001 session, HB 982 in the 2000 session, and HB 1088 in the 1999 session. All three bills received an unfavorable report by the House Ways and Means Committee. HB 1088 of 1999 was referred to interim study.

Cross File: None.

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

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lsc/jr

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