

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1356
Ways and Means

(Delegate Barve)

Nursing Students - State Income Tax Credit for Tuition Paid

This bill provides a credit against the State income tax equal to 50% of tuition paid in a taxable year for an individual enrolled in an education program leading to licensure in nursing. The amount of the credit may not exceed the lesser of \$2,000 or the individual's State tax for the taxable year. Any unused portion of the credit may not be carried forward.

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

Fiscal Summary

State Effect: Potentially significant reduction in general fund revenues. The amount of the reduction depends on the number of individuals enrolled in programs leading to licensure in nursing, the individual's income tax liability for the year, and the amount of tuition paid.

Local Effect: None. The credit applies to the State income tax only.

Small Business Effect: None.

Analysis

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

State Fiscal Effect: The actual cost of this bill cannot be reliably estimated and depends on the number of individuals enrolled in programs leading to licensure in nursing, the amount of tuition paid by these individuals, and the individual's income tax liability for the year.

MHEC advises that in academic year 2000 there were 9,667 students enrolled in nursing programs at colleges and universities in Maryland. Of those enrolled, approximately 88% (8,507) are Maryland residents.

The U.S. Census Bureau data indicates that householders aged 15-24 had a median income of \$27,689. An individual with gross income of \$27,689 would have a State tax liability of approximately \$1,078. Assuming that students have lower than average incomes, it is estimated that most nursing students would not be able to claim the maximum \$2,000 credit. The amount of the credit claimed would thus be limited more by the individual's income rather than the amount of tuition paid.

There are several programs in the State that assist nursing students with tuition, fees, and living expenses:

- The Health Manpower Shortage Tuition Reduction Program for non-Resident Nursing Students reduces tuition for non-Maryland residents to resident rates.
- The Health Manpower Shortage Community College Program makes in-county tuition available to all State residents in most community college programs.
- The State Nursing Scholarship and Living Expenses Grant pays up to \$6,000 per year to students with a 3.0 GPA in high school or college.

These programs could serve to further reduce or eliminate an individual's tuition and expenses and therefore the amount of expenses eligible for the tax credit.

In order to illustrate the potential cost of the bill, it is assumed that individuals enrolled in nursing programs in the State have an average taxable income of \$5,000 with a resulting State income tax liability of \$238. Because the amount of the credit cannot exceed the lesser of \$2,000 or the State tax owed, the amount of the credit available to these individuals could not exceed \$119 ($\$238 \times 50\%$), no matter how much was paid in tuition for the year. Based on the number of students enrolled in nursing programs in academic year 2000, the credit would reduce general funds by approximately \$1.2 million. Non-residents would be eligible for the credit based on the portion of their income earned in Maryland. However, if it is assumed that all enrolled students (9,667) were able to claim the maximum \$2,000 credit, general fund revenues would

decrease by approximately \$19.3 million. Therefore, the actual cost of the bill could be between \$1.2 million and \$19.3 million annually.

The Office of the Comptroller would incur a one-time expenditure of \$42,400 to make changes to the SMART processing systems to add the credit to form 502CR of the income tax return. The Department of Legislative Services advises that since forms and instructions are updated annually, the cost of these changes could be absorbed within existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates), Maryland Higher Education Commission, Department of Legislative Services

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