HB 627

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 627 (Delegate Finifter, *et al*.)
Ways and Means

Income Tax Credit - Elder Care

This bill provides that an individual with federal adjusted gross income of $40,000 or less ($75,000 or less for married couples filing a joint return) may claim an income tax credit equal to $1,000 if the individual cares for an elderly dependent who is at least 65 years old, a relative, has lived with the individual for at least 12 months, and whose federal adjusted gross income does not exceed $13,000 ($20,000 for married elderly dependents). The bill also provides that an individual or corporation may claim a credit against the State income tax for 25% of the costs of providing elder care for employees during work hours. The credit may not exceed the State income tax and any unused portion of the credit may be carried forward for up to three taxable years.

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

Fiscal Summary

State Effect: Potentially significant general fund and Transportation Trust Fund (TTF) revenue decrease beginning in FY 2003. The actual decrease cannot be reliably estimated. For illustrative purposes only, under one set of assumptions, general fund revenues could decrease by approximately $11.7 million beginning in FY 2003 if only the credit provided to individuals was claimed.

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

Bill Summary: The credit may be allowed to employers for: (1) the cost of any contract for off-site services to provide elder care; (2) the expenses of on-site elder care staff, learning and recreational materials, and equipment; and (3) the costs of construction and maintenance of an on-site elder care facility. This credit may not be claimed unless the employer has a total off-site or on-site enrollment of at least six individuals at least 65 years old who are receiving elder care.

Current Law: For federal income tax purposes, there are two existing tax incentives for child and dependent care expenses: the dependent care credit and the employer-provided dependent care spending account.

The dependent care credit is allowed for child care expenses for children through age 12 or for day care expenses for disabled spouses or dependents.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 increased the percentage of allowed expenses from 30% to 35%. The Act also increased the amount of eligible expenses to $3,000 for one qualified dependent and $6,000 for two or more qualified dependents (from $2,400 and $4,800, respectively). The beginning point for the phase-out of the credit was increased to adjusted gross income over $15,000. As a result, the percentage of allowed expenses is reduced to 20% for individuals with income over $43,000.

The federal employer-provided dependent care spending account allows an employee to receive up to $5,000 tax-free each year, to be placed in a "flexible spending account" from which the employee gets reimbursed for dependent care expenses. The amount placed in the spending account reduces the amount that may be claimed under the dependent care credit, so that an individual making full use of a dependent care spending account does not get to claim the credit.

The State provides an income tax credit for child and dependent care expenses equal to 32.5% of the federal child and dependent care credit. The maximum allowable income is $50,000 ($25,000 for a married individual filing a separate return).

If an individual's federal adjusted gross income for the taxable year exceeds $41,000, the Child and Dependent Care Credit is reduced by 10% for each $1,000 or fraction of $1,000, by which the individual's federal adjusted gross income exceeds $41,000. For a married individual filing a separate return, if the individual's federal adjusted gross income for the taxable year exceeds $20,500, the credit is reduced by 10% for each $500, or fraction of $500, by which the individual's federal adjusted gross income exceeds $20,500.

In addition to the Child and Dependent Care Credit enacted in 1999, and modified in 2000, Maryland also allows an income tax subtraction modification for qualified child and dependent care expenses of up to $2,400 for one dependent or $4,800 for two or more dependents (increasing to $3,000 and $6,000, respectively, for tax years after 2002). Maryland's treatment of dependent care expenses is tied to the federal dependent care credit, in that only expenses allowed in computing the federal dependent care credit are allowed in calculating Maryland's subtraction modification. In addition, amounts contributed to a dependent care spending account are excluded from Maryland taxable income since the starting point for determining Maryland taxable income is federal adjusted gross income (which excludes that amount).

Finally, Maryland taxpayers are allowed to claim an exemption for elderly dependents. For tax year 2002, the amount of the exemption is $2,400.

State Fiscal Effect: The actual cost of the bill cannot be reliably estimated and depends on a number of factors. **Exhibit 1** outlines the potential cost if the credit were claimed only on individual income tax returns. It is based on the following facts and assumptions:

- elderly population data provided by the Maryland Department of Planning;
- 13% of elderly Americans live with relatives -- based on data from the Office of Aging Profile of Older Americans;
- for tax year 2000, 20% of returns filed by taxpayers 65 and older had federal adjusted gross income below $13,000; and
- for tax year 2000, 75% of returns had federal adjusted gross income below the income limitations prescribed by the bill ($40,000 or less for an individual; $75,000 or less for married couples filing jointly).

Exhibit 1
Potential Costs of Elder Care Income Tax Credit

Tax Year	Ages 65 and Over	Living with Relatives	Under Income Limitation	Taken on Eligible Taxpayer Returns	Total Credits
2002	599,307	77,910	15,582	11,686	$11,686,487
2003	607,613	78,990	15,798	11,848	$11,848,461
2004	616,035	80,085	16,017	12,013	$12,012,681
2005	624,573	81,195	16,239	12,179	$12,179,177
2006	633,230	82,320	16,464	12,348	$12,347,980

The bill also allows corporations to claim the credit for 25% of the costs of providing elder care for employees during work hours. Of those 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 corporate income tax returns cannot be reliably estimated.

The Office of the Comptroller would incur a one-time expenditure of $42,200 to add the credit to the income tax return forms 500CR and 502CR. 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.

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% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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