

**Department of Legislative Services**  
Maryland General Assembly  
2004 Session

**FISCAL AND POLICY NOTE**

Senate Bill 444

(Senator Brinkley, *et al.*)

Budget and Taxation

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**Qualified Tuition Programs - Income Tax Treatment**

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This bill expands and clarifies existing State subtraction modifications for tax deferred contributions to higher education prepaid tuition programs and investment programs.

The bill expands the types of programs that qualify for the subtraction modifications to any qualified tuition program under federal law. Under current law, these subtraction modifications are limited to contributions made only in the State prepaid and investment plans. The bill clarifies that: (1) a subtraction modification of up to \$2,500 per contributor per beneficiary is available for contributions to any qualified prepaid tuition program under federal law; and (2) a subtraction modification of up to \$2,500 per contributor per beneficiary is available for contributions to any qualified higher education investment program under federal law.

The bill takes effect July 1, 2004 and applies to tax year 2004 and beyond.

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**Fiscal Summary**

**State Effect:** The extent of general fund revenue loss depends on the number of additional educational plans that would be eligible for the existing subtraction modification and cannot be reliably estimated. Under one set of assumptions, revenues could decline by approximately \$6.5 million in FY 2005. Expenditures would not be affected.

**Local Effect:** Local revenues would decrease by approximately 2.8% of the State subtraction taken in tax year 2005. Based on the assumptions above, local revenues would decline by approximately \$4.0 million in FY 2005. Expenditures would not be affected.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** Taxpayers are allowed a subtraction modification of up to \$2,500 for amounts contributed to an investment account under the Maryland College Investment Plan and Maryland Prepaid College Trust. Contributions in excess of \$2,500 for any taxable year may be carried forward and used as a subtraction for up to 10 succeeding tax years. A subtraction modification is also allowed for distributions to a qualified designated beneficiary under an investment account, to the extent the distributions are included in federal adjusted gross income. Any refunds from an investment account or distributions that are not used for qualified higher education expenses of the qualified designated beneficiary must be added back to determine Maryland taxable income. As of January 2004, there were 62,396 accounts in both Maryland savings plans.

**State Revenues:** The exact cost of the bill, which is unknown, depends on the number of individuals with non-Maryland higher education investment programs that would qualify for the subtraction modification.

*For illustrative purposes only*, revenues could decline by approximately \$6.5 million annually, based on the following facts and assumptions:

- There are an estimated 14 college savings plans that are marketed nationally. These plans are marketed by companies such as Citigroup, Merrill Lynch, Fidelity, and Putnam. These 14 savings plans have approximately 2.9 million accounts.
- Assuming the number of accounts in Maryland is proportional to population, 55,081 Marylanders have accounts in these plans that would qualify for the subtraction modification provided under the bill.
- An average of \$6,600 was contributed for each account in Maryland's College Investment Plan. It is assumed that contributions to the national plans are of similar amounts and would qualify for the maximum \$2,500 subtraction modification.

The clarifications for the other provisions of the bill are likely to increase revenues by approximately \$100,000 per year based on the number of duplicative accounts in the two State savings plans. The Comptroller's Office and College Savings Plan of Maryland

report that the other provisions of the bill clarify existing regulations and would not increase revenues.

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### **Additional Information**

**Prior Introductions:** SB 383 of 2002, an identical bill, passed the Senate and House but was vetoed by the Governor.

**Cross File:** None.

**Information Source(s):** College Savings Plans of Maryland, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 24, 2004  
mll/mdr

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