

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 798 (Delegate Trueschler, *et al.*)  
 Ways and Means

Income Tax - Credit for Classroom Supplies Purchased by Teachers

This bill provides an income tax credit to specified teachers in elementary and secondary schools for classroom supplies purchased for the benefit of students. The percentage of expenses eligible for the credit is: (1) 25% in tax year 2004; (2) 50% in tax year 2005; and (3) 75% for tax years 2006 and beyond.

The credit applies to expenses that are not otherwise reimbursed and are used by students in the classroom or by the eligible teacher to prepare for or during classroom teaching. The amount of the credit cannot exceed \$300 or the income tax liability for the taxable year. Any unused amount of the credit may not be carried forward to any other taxable year.

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

Fiscal Summary

**State Effect:** General fund revenue decrease of approximately \$15.3 million in FY 2005. Future year decreases reflect a 1% annual increase in the number of public school teachers and phased-in percentage of the credit. Special fund expenditure increase of approximately \$43,000 in FY 2005 due to one-time tax form changes and computer expenses.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$15.3)	(\$20.7)	(\$20.9)	(\$21.0)	(\$21.2)
SF Expenditure	0	0	0	0	0
Net Effect	(\$15.4)	(\$20.7)	(\$20.9)	(\$21.0)	(\$21.2)

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

**Local Effect:** None. The credit would be claimed against the State income tax only.

**Small Business Effect:** Minimal.

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## **Analysis**

**Current Law:** No income tax credit of this type exists under the Maryland income tax. However, for tax years 2002 and 2003 only, the Internal Revenue Code allows teachers to claim a \$250 deduction for out-of-pocket expenses for classroom supplies.

**State Revenues:** General fund revenues would decline by approximately \$15.3 million in tax year 2004, resulting in a general fund revenue decrease of approximately \$15.3 million in fiscal 2005. This estimate is based on the following facts and assumptions:

- According to the Maryland State Department of Education, there were 55,743 full-time public elementary and secondary school teachers in 2002.
- There are 12,144 private full-time private elementary and secondary school teachers in 2003.
- According to a survey by the National School Supply and Equipment Association, teachers spent an average of \$589 on school supplies that was not otherwise reimbursed. The amount spent increased by 15% annually from 1999 to 2001 and is assumed to continue that growth from 2001 to 2008.
- The number of qualifying private teachers is estimated to remain constant from 2004 through 2008 while the number of qualifying public teachers is estimated to increase by 1% annually.
- All teachers claiming the credit will have sufficient tax liability to claim the entire amount of the credit.

**Local Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$43,000 to add the checkoff to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

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## **Additional Information**

**Prior Introductions:** HB 3 of 2003, a similar bill, received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland State Department of Education,  
Department of Legislative Services

**Fiscal Note History:** First Reader - March 22, 2004  
mh/mdr

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