

(PRE-FILED)

By: **Delegate Franchot**

Requested: November 3, 2004

Introduced and read first time: January 12, 2005

Assigned to: Ways and Means

A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax Reform - Revenues for Higher Education Assistance**

3 FOR the purpose of increasing the minimum and maximum amounts allowed for
4 certain student financial assistance awards granted by the Maryland Higher
5 Education Commission; altering the purpose and use of the Educational
6 Excellence Fund; specifying that the Fund is a special, nonlapsing fund, that the
7 State Treasurer shall hold the Fund separately, and that the Comptroller shall
8 account for the Fund; specifying that the Fund consists of certain revenues and
9 other moneys accepted for certain purposes; requiring certain investment
10 earnings to be credited to the Fund; allowing the Fund to be used only for
11 certain purposes and under certain circumstances; repealing a requirement that
12 certain moneys received for the Fund be deposited in a certain account;
13 requiring the Comptroller to distribute certain income tax revenue for each
14 fiscal year to the Educational Excellence Fund; altering certain tax rates and
15 rate brackets under the State income tax on individuals; requiring the
16 Comptroller to issue new employer withholding tables reflecting certain rates
17 and rate brackets; requiring the Comptroller to waive certain interest and
18 penalty for a certain taxable year; providing for the application of this Act; and
19 generally relating to the alteration of income tax rates and rate brackets and
20 additional revenue for financial assistance to students attending institutions of
21 higher education.

22 BY repealing and reenacting, without amendments,
23 Article - Education
24 Section 18-301
25 Annotated Code of Maryland
26 (2004 Replacement Volume and 2004 Supplement)

27 BY repealing and reenacting, with amendments,
28 Article - Education
29 Section 18-304 and 18-310
30 Annotated Code of Maryland
31 (2004 Replacement Volume and 2004 Supplement)

1 BY adding to
2 Article - Tax - General
3 Section 2-608.2
4 Annotated Code of Maryland
5 (2004 Replacement Volume)

6 BY repealing and reenacting, with amendments,
7 Article - Tax - General
8 Section 2-609 and 10-105
9 Annotated Code of Maryland
10 (2004 Replacement Volume)

11 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
12 MARYLAND, That the Laws of Maryland read as follows:

13 **Article - Education**

14 18-301.

15 (a) There is a Program of Educational Excellence Awards in this State that are
16 awarded under this subtitle.

17 (b) The Program shall consist of the following types of awards:

18 (1) Guaranteed Access Grants that are awarded to the neediest students
19 to ensure that 100 percent of educational costs, as defined by regulations adopted by
20 the Commission, are paid; and

21 (2) Educational Assistance Grants that are awarded to low and moderate
22 income students to assist in paying educational costs, as defined by regulations
23 adopted by the Commission.

24 18-304.

25 (a) (1) Except as provided in § 18-307 of this subtitle, the Office shall
26 determine the amount of each Educational Excellence Award based on the financial
27 need of the applicant.

28 (2) In determining the amount of financial need, the Office shall
29 consider regional cost-of-living differences.

30 (b) (1) Except as provided in paragraph (2) of this subsection, an
31 Educational Excellence Award may be awarded in \$100 increments and the award for
32 a single year may not be less than [\$400] \$2,000 or more than [\$3,000] \$8,000.

33 (2) (i) All applicants who fulfill the requirements established in §
34 18-303(a) and (b) of this subtitle shall receive a Guaranteed Access Grant.

1 (ii) The amount of a Guaranteed Access Grant shall be equal to 100
2 percent of the student's financial need as determined by the Office, not to exceed the
3 equivalent annual expenses of a full-time resident undergraduate at the 4-year
4 public institution of higher education within the University System of Maryland,
5 other than the University of Maryland University College and University of
6 Maryland, Baltimore, with the highest annual expenses for a full-time resident
7 undergraduate.

8 18-310.

9 (a) Funds for the Educational Excellence Award Program shall be as provided
10 in the annual budget of the Commission by the Governor.

11 (b) (1) There is an Educational Excellence Fund in the Commission.

12 (2) THE FUND IS A SPECIAL, NONLAPSING FUND THAT IS NOT SUBJECT
13 TO § 7-302 OF THE STATE FINANCE AND PROCUREMENT ARTICLE.

14 (3) THE TREASURER SHALL HOLD THE FUND AND THE COMPTROLLER
15 SHALL ACCOUNT FOR THE FUND.

16 (4) THE PROCEEDS OF THE FUND SHALL BE INVESTED AND
17 REINVESTED.

18 (5) ANY INVESTMENT EARNINGS SHALL BE PAID INTO THE FUND.

19 (6) THE FUND CONSISTS OF:

20 (I) REVENUES DISTRIBUTED TO THE FUND UNDER § 2-608.2 OF
21 THE TAX - GENERAL ARTICLE; AND

22 (II) ANY OTHER MONEY FROM ANY OTHER SOURCE ACCEPTED FOR
23 THE BENEFIT OF THE FUND.

24 (7) THE COMMISSION SHALL ADMINISTER THE FUND.

25 (8) MONEY IN THE FUND MAY ONLY BE EXPENDED TO:

26 (I) SUPPLEMENT GENERAL FUND APPROPRIATIONS TO THE
27 EDUCATIONAL EXCELLENCE AWARD PROGRAM; AND

28 (II) SUPPORT AN EARLY INTERVENTION PROGRAM TO IDENTIFY
29 STUDENTS ELIGIBLE FOR THE EDUCATIONAL EXCELLENCE AWARD PROGRAM AND
30 PREPARE THEM FOR COLLEGE.

31 (9) EXPENDITURES FROM THE FUND MAY ONLY BE MADE:

32 (I) IN ACCORDANCE WITH AN APPROPRIATION APPROVED BY THE
33 GENERAL ASSEMBLY IN THE ANNUAL STATE BUDGET; OR

1 (II) BY AN APPROVED BUDGET AMENDMENT IN ACCORDANCE WITH
2 § 7-209 OF THE STATE FINANCE AND PROCUREMENT ARTICLE.

3 [(2) The Commission:

4 (i) May accept any gift or grant from any person or corporation for
5 the Educational Excellence Fund;

6 (ii) Shall use any gift or grant that it receives to support an early
7 intervention program to identify students eligible for the Educational Excellence
8 Award Program and prepare them for college; and

9 (iii) Shall deposit any gift or grant that it receives for the Fund with
10 the State Treasurer in a nonbudgeted account for use only in the early intervention
11 program.

12 (3)] (10) (i) At the end of the fiscal year, the Commission shall prepare
13 an annual report on the Educational Excellence Fund that includes an accounting of
14 all financial receipts and expenditures to and from the Fund.

15 (ii) The Commission shall submit a copy of the report to the
16 General Assembly as provided under § 2-1246 of the State Government Article.

17 **Article - Tax - General**

18 2-608.2.

19 AFTER MAKING THE DISTRIBUTIONS REQUIRED UNDER §§ 2-604 THROUGH
20 2-608.1 OF THIS SUBTITLE, FOR EACH FISCAL YEAR THE COMPTROLLER SHALL
21 DISTRIBUTE TO THE EDUCATIONAL EXCELLENCE FUND ESTABLISHED UNDER §
22 18-310 OF THE EDUCATION ARTICLE AN AMOUNT EQUAL TO 100% OF THE
23 ADDITIONAL STATE INCOME TAX REVENUES RESULTING FROM CHAPTER ____ OF
24 THE ACTS OF 2005 (H.B. ____)(5LR0865), AS DETERMINED BY THE COMPTROLLER.

25 2-609.

26 After making the distributions required under §§ 2-604 through [2-608.1]
27 2-608.2 of this subtitle, the Comptroller shall distribute the remaining income tax
28 revenue from individuals to the General Fund of the State.

29 10-105.

30 (a) The State income tax rate for an individual OTHER THAN ONE DESCRIBED
31 IN SUBSECTION (B) OF THIS SECTION is:

32 (1) 2% of Maryland taxable income of \$1 through \$1,000;

33 (2) 3% of Maryland taxable income of \$1,001 through \$2,000;

34 (3) 4% of Maryland taxable income of \$2,001 through \$3,000;

- 1 (4) 4.75% OF MARYLAND TAXABLE INCOME OF \$3,001 THROUGH \$200,000;
 2 and
- 3 [(4)] (5) [for] 5.25% OF Maryland taxable income in excess of [\$3,000:]
 4 \$200,000.
- 5 [(i) 4.875% for a taxable year beginning after December 31, 1997
 6 but before January 1, 1999;
- 7 (ii) 4.85% for a taxable year beginning after December 31, 1998 but
 8 before January 1, 2000;
- 9 (iii) 4.85% for a taxable year beginning after December 31, 1999 but
 10 before January 1, 2001;
- 11 (iv) 4.8% for a taxable year beginning after December 31, 2000 but
 12 before January 1, 2002; and
- 13 (v) 4.75% for a taxable year beginning after December 31, 2001.]

14 (B) THE STATE INCOME TAX RATE FOR SPOUSES FILING A JOINT RETURN OR
 15 FOR A SURVIVING SPOUSE OR HEAD OF HOUSEHOLD AS DEFINED UNDER § 2 OF THE
 16 INTERNAL REVENUE CODE IS:

- 17 (1) 2% OF MARYLAND TAXABLE INCOME OF \$1 THROUGH \$1,000;
 18 (2) 3% OF MARYLAND TAXABLE INCOME OF \$1,001 THROUGH \$2,000;
 19 (3) 4% OF MARYLAND TAXABLE INCOME OF \$2,001 THROUGH \$3,000;
 20 (4) 4.75% OF MARYLAND TAXABLE INCOME OF \$3,001 THROUGH \$250,000;
 21 AND
- 22 (5) 5.25% OF MARYLAND TAXABLE INCOME IN EXCESS OF \$250,000.
- 23 [(b)] (C) The State income tax rate for a corporation is 7% of Maryland taxable
 24 income.

25 [(c) For a husband and wife filing a joint income tax return, the rates specified
 26 in subsection (a) of this section apply to the joint Maryland taxable income of the
 27 husband and wife.]

28 SECTION 2. AND BE IT FURTHER ENACTED, That the Comptroller shall
 29 issue new employer withholding tables, to be effective as of July 1, 2005, reflecting the
 30 new tax rates and rate brackets under this Act. The Comptroller shall waive any
 31 interest or penalty imposed on an individual relating to payment of estimated income
 32 tax for calendar year 2005 to the extent the Comptroller determines that the interest
 33 or penalty would not have been incurred but for an increase in the income tax rates
 34 for calendar year 2005 under this Act.

1 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
2 July 1, 2005, and shall be applicable to all taxable years beginning after December 31,
3 2004.