

**Department of Legislative Services  
Maryland General Assembly  
2005 Session**

**FISCAL AND POLICY NOTE**

House Bill 26 (Delegate Trueschler)  
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 2005; (2) 50% in tax year 2006; and (3) 75% for tax years 2007 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 requires that a taxpayer add back any amount of credit claimed to the extent excluded from federal adjusted gross income.

The bill takes effect July 1, 2005 and applies to tax years 2005 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$8.1 million in FY 2006; future years reflect an increased number of public school teachers and the phased-in percentage of the credit. Special fund expenditures would increase by \$32,000 in FY 2006 due to one-time tax form changes and computer expenses.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	(\$8.1)	(\$18.0)	(\$22.9)	(\$23.7)	(\$24.5)
SF Expenditure	0	0	0	0	0
Net Effect	(\$8.1)	(\$18.0)	(\$22.9)	(\$23.7)	(\$24.5)

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

**Local Effect:** Local revenues would increase by approximately \$264,200 in FY 2006 due to the add-back provision in the bill. Local revenues and expenditures would not be affected in FY 2007 and beyond.

**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 federal tax purposes, eligible educators can deduct up to \$250 per year for unreimbursed expenses paid for books, supplies, computer equipment, and other supplemental classroom material. This deduction is available regardless of whether the taxpayer chooses to itemize deductions.

**Background:** The federal Economic Growth and Tax Relief Reconciliation Act of 2001 established the educator expense deduction for tax years 2002 and 2003. The Working Families Tax Relief Act of 2004 extended the deduction to tax years 2004 and 2005. This “above-the-line” deduction reduces federal adjusted gross income, which in turn reduces State taxes by flowing through to Maryland Adjusted Gross Income (MAGI). The Comptroller’s Office estimates that the federal deduction acts to reduce State revenues by less than \$900,000 annually.

The bill would require that a taxpayer add back to MAGI any amount of credit claimed to the extent excluded from federal adjusted gross income. An educator claiming the State credit will gain the benefit of the State tax credit, but lose the State benefit of the deduction provided by the federal deduction for tax year 2005. For a typical teacher, the educator expense deduction reduces federal income taxes by approximately \$63 and State income taxes by approximately \$12. Therefore, the net State tax benefit of the bill to an educator is the amount of credit claimed (up to a maximum of \$300) minus the amount of deduction benefit lost, if any, in a tax year.

Several states reimburse teachers for unreimbursed classroom supplies purchased by teachers. Arkansas reimburses teachers for up to \$500 in classroom supplies purchased. California, however, suspended its tax credit of up to \$1,500 until 2007 due to budget concerns.

**State Revenues:** General fund revenues would decrease by \$8.1 million in tax year 2005, resulting in a general fund revenue decrease of \$8.1 million in fiscal 2006. This estimate is based on the following facts and assumptions.

- There were approximately 57,000 full-time public elementary and secondary school teachers in 2003.
- The number of public school teachers has increased on average by 2% annually from October 1999 to October 2003. It is estimated that the implementation of the federal No Child Left Behind Act and Bridge to Excellence in Public Schools Act of 2004 will increase the annual increase in public school teachers to 4% annually from 2003 to 2009.
- There are approximately 12,100 full-time private elementary and secondary school teachers in 2004. The number of private teachers is assumed to remain constant.
- Based on surveys conducted by the National School Supply and Equipment Association and the National Education Association (NEA), it is estimated that the average teacher will spend approximately \$477 in tax year 2005 on school supplies that are not otherwise reimbursed, and this amount increases by 2% annually.
- Three percent of all teachers did not have unreimbursed classroom expenses in 2001 according to NEA.
- The number of Maryland school teachers that live in other states with reciprocal tax agreements is offset by the number of Maryland teachers that teach in those states.
- All teachers claiming the credit will have sufficient tax liability to claim the entire amount of the credit.
- The federal above-the-line deduction expires as scheduled, resulting in the add-back provision of the bill offsetting the amount of credits claimed by approximately \$417,000 in fiscal 2006.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,000 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. The Comptroller's Office would also incur additional, ongoing expenses due to additional data verification requirements. Based on the estimated amount of taxpayers who would claim the credit, Legislative Services advises that the ongoing costs can be absorbed within existing budgeted resources.

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### **Additional Information**

**Prior Introductions:** HB 798 of 2004, an identical bill, and HB 3 of 2003, a similar bill, received unfavorable reports from the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland State Department of Education, National School Supply and Equipment Association, National Education Association, Department of Legislative Services.

**Fiscal Note History:** First Reader - January 28, 2005  
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