

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 597

(Senator Kramer, *et al.*)

Budget and Taxation

Income Tax - Credit for Providing Adult Literacy Programs

This bill creates a tax credit for businesses or nonprofit organizations that provide adult literacy services to its employees. The amount of the credit is equal to 50% of the costs of providing the adult literacy services, not to exceed \$500 for every employee that receives literary services. The total amount of credit claimed in a tax year cannot exceed \$50,000 or the State tax liability for the year.

The bill takes effect July 1, 2005 and applies to tax years 2006 through 2008.

Fiscal Summary

State Effect: General fund revenues would decrease by approximately \$9.4 million in FY 2007 due to credits being claimed against the corporate and personal income tax. Transportation Trust Fund (TTF) revenues could decrease by approximately \$1.3 million in FY 2007 due to credits being claimed against the corporate income tax of which the State's share is \$0.9 million. Future years reflect 2% increase in adult literacy costs and a constant number of employees offering education services. Special fund expenditures would increase by approximately \$88,800 in FY 2006, which includes one-time tax form changes and computer programming expenditures.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$0	(\$9.4)	(\$9.6)	(\$9.8)	\$0
SF Revenue	0	(1.3)	(1.3)	(1.3)	0
SF Expenditure	(.1)	0	0	0	0
Net Effect	\$.1	(\$10.7)	(\$10.9)	(\$11.2)	\$0

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

Local Effect: Local highway user revenues could decrease by approximately \$386,200 in FY 2007 if one-half of the credits were claimed against the corporate income tax. Future year losses increase by 2% annually.

Small Business Effect: Minimal.

Analysis

Current Law: No similar State tax credit of this type exists.

Background: A task force was established at the 2001 session to study adult education services in Maryland. The task force determined that there is a significant need for adult education services in Maryland, with 700,000 to 900,000 adults who have not earned a high school diploma or lack the skills to speak English well. Current adult education programs serve between 36,000 and 38,000 individuals annually, or 5% of the individuals in need. The demand for literacy services varies across Maryland. Statewide about 20% of adults function at the lowest literacy level; however, this percentage ranges from 10% in Carroll and Frederick counties to 38% in Baltimore City.

Chapter 185 of 2002 required the Maryland State Department of Education (MSDE) to distribute competitive grants for adult education services according to the State plan for adult education and family literacy. MSDE was required to submit a methodology for determining the need and cost of adult education instruction to the Legislative Policy Committee by September 15, 2002. In its presentation to the committee, MSDE recommended that existing funding for adult education be compared to current needs to calculate an annual State appropriation. Using this approach, MSDE estimated that an additional \$36.1 million would be needed to serve all individuals currently receiving or seeking services. Due to the State's fiscal condition, MSDE recommended that the funding method be phased in over five years and then re-evaluated.

State funding for adult education services totals \$2.4 million in fiscal 2005, and federal funding totals approximately \$7.4 million. The proposed fiscal 2006 State budget includes a stable amount of funding from both sources. **Exhibit 1** shows the fiscal 2005 and 2006 levels of State and federal funding for adult education, by program.

Exhibit 1
State and Federal Funding for Adult Continuing Education
Fiscal 2005 and 2006

State Funding

Adult General Education	\$161,703
External Diploma Program	281,070
Literacy Works Grant	810,829
Adult Education and Literacy Works	<u>1,100,020</u>
<i>Subtotal – State Funding</i>	\$2,353,622

Federal Funding

Adult Ed – State-Administered Basic Grants	<u>\$7,448,618</u>
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Total Funding **\$9,802,240**

Source: *Maryland Operating Budget Book, Fiscal Year 2006*

MSDE advises that there were 4,925 individuals on adult education waiting lists as of December 31, 2004. Budget language in the 2004 *Joint Chairmen’s Report* expressed the General Assembly’s concern about the number of individuals on the waiting list for adult education services and required MSDE to submit a proposal for an ongoing adult education funding method by November 15, 2004. MSDE requested an extension in December 2004 and was given until March 15, 2005 to submit the proposal.

State Revenues: Tax credits could be claimed in tax years 2006 through 2008. As a result, general fund revenues would decrease by approximately \$9.4 million in fiscal 2007, \$9.6 million in fiscal 2008, and \$9.8 million in fiscal 2009. TTF revenues would decrease by approximately \$1.3 million in fiscal 2007 through 2009.

This estimate is based on the following facts and assumptions:

- there were 129,301 total nonfarm Maryland establishments with employees in 2001;
- according to the American Management Association, in 2001 13% of companies offer remedial training in fundamental reading, writing, and math skills;
- the average cost of the training in 2001 was \$289;
- the cost of training is increased 2% annually;

- taxpayers have sufficient tax liability to claim the entire amount of the credit; and
- one-half of the credits are claimed against the corporate income tax and one-half against the personal income tax.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$88,800 to add the tax credit to the corporate and personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

Additional Information

Prior Introductions: None.

Cross File: HB 529 (Delegate Hixson, *et al.*) – Ways and Means.

Information Source(s): American Management Association, U.S. Census Bureau, Maryland State Department of Education, Department of Legislative Services

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