

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1045 (Delegate Burns, *et al.*)
 Ways and Means

Income Tax - Credit for Custodial Parents Unable to Collect Child Support

This bill creates a tax credit against the State income tax for custodial parents who are unable to collect outstanding child support obligations. In order to qualify, the court-ordered child support obligations must be at least 180 days in arrears or the child support obligor cannot be located; and the custodial parent must have a federal adjusted gross income of \$50,000 or less. The Child Support Enforcement Administration (CSEA), in consultation with the Comptroller’s Office, is required to adopt regulations to certify eligible individuals for the credit. The amount of the credit cannot exceed \$1,000 or the tax liability in that year.

The bill takes effect July 1, 2006 and applies to tax year 2006 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by approximately \$30.9 million in FY 2007 due to credits being claimed by eligible individuals. Future years reflect increased eligible individuals. General fund expenditures would increase by approximately \$32,900 in FY 2007, which reflects one-time tax form changes and computer programming expenditures.

| (in dollars) | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|----------------|----------------|----------------|----------------|----------------|----------------|
| GF Revenue | (\$30,864,000) | (\$31,172,600) | (\$31,484,300) | (\$31,799,200) | (\$32,117,200) |
| GF Expenditure | 32,900 | 0 | 0 | 0 | 0 |
| Net Effect | (\$30,896,900) | (\$31,172,600) | (\$31,484,300) | (\$31,799,200) | (\$32,117,200) |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Lower-income individuals with children can qualify for similar federal and State income tax credits as discussed below.

Background: The federal earned income credit (EIC) is a credit available to lower-income individuals. A joint Internal Revenue Service (IRS) – Department of Treasury task force estimated that nationwide the EIC lifted 4.3 million individuals, including 2.3 million children, out of poverty in 2000. In recent years, EIC recipients have claimed approximately \$30 billion in credits annually. Maryland's income tax law has provided a nonrefundable State EIC equal to 50% of the federal EIC since 1987. Chapter 5 of 1998 established a refundable EIC for taxpayers who both meet the eligibility standards of the federal credit and have at least one dependent. Subsequent legislation set the value of the credit equal to 20% of the federal EIC, minus any pre-credit State income tax liability. In tax year 2004, individuals claimed a total of approximately \$81.5 million in State refundable earned income credits and \$67.1 million in earned income credits.

According to the CSEA, a total of 206,398 child support orders were in force in fiscal 2004. A total of approximately \$562.2 million in child support was due in fiscal 2004. Of this amount, approximately 38% or \$214.8 million was not collected.

State Revenues: Tax credits could be claimed beginning in tax year 2006. As a result, general fund revenues could decrease by approximately \$30.9 million in fiscal 2007. This estimate is based on the following facts and figures:

- According to CSEA, 61,300 custodial parents could qualify for the tax credit. CSEA also advises that approximately one-quarter of these individuals receive some type of public assistance. It is assumed that these individuals currently do not have a State income tax liability.
- The average net State tax liability (tax liability after application of credits) in tax year 2004 for individuals with a federal adjusted gross income of less than \$50,000 was \$672.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,850 in fiscal 2007 to add the credit to the personal income

tax form. This includes processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Human Resources, Comptroller's Office,
Department of Legislative Services

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nas/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510