

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 178
Ways and Means

(Delegate Mayer, *et al.*)

Income Tax - State and County Income Tax Credit for New Teachers

This bill creates, subject to approval of a county governing body, a tax credit against the State and local income tax for new public school classroom teachers who: (1) are in their first or consecutive second year of employment with the local school system; (2) reside in the county in which they teach; and (3) have a standard or advanced professional certificate. The amount of the credit may not exceed \$1,200 or the tax liability in the tax year.

The bill takes effect June 1, 2006 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$2.2 million in FY 2008 due to teachers claiming the credit in the first year of employment if all counties authorize the credit. Revenue losses would be less, or none, to the extent that counties do not authorize the credit. Future years reflect estimated numbers of teachers claiming the credit in the first and second year of employment. General fund expenditures could increase by approximately \$32,900 in FY 2008, 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	\$0	(\$2,126,200)	(\$3,931,500)	(\$3,928,800)	(\$3,933,300)
GF Expenditure	0	32,900	0	0	0
Net Effect	\$0	(\$2,159,100)	(\$3,931,500)	(\$3,928,800)	(\$3,933,300)

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

Local Effect: If all counties authorize the tax credit, local income tax revenues would decrease by approximately \$1.3 million in FY 2008 and by \$2.5 million in FY 2011. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Bill Summary: The credit may not be claimed unless the governing body of a county or Baltimore City has authorized, by law, that the credit can be claimed by its teachers. Any unused amount of the credit may not be carried forward to any other tax year. The tax credit is claimed against the State and county income tax in proportion to the ratio of the taxpayer's State and local income tax liability. Any county that elects to provide the tax credit must inform the Comptroller by July 1 prior to the first tax year the credit will be offered.

Current Law: No similar State or local tax credit exists.

Background: The State has supported a number of efforts and programs designed to attract and retain high quality teachers. The Quality Teacher Incentive Act of 1999 (Chapter 600) established stipends and signing bonuses for qualifying teachers. In the 2004-2005 school year, more than 3,800 stipends totaling \$6.8 million were awarded to teachers under the program. The proposed fiscal 2007 State budget includes \$7.6 million for the stipends and bonuses.

The State also provides funds for a program that pays the National Board for Professional Teaching Standards certification fee for teachers pursuing national board certification. There were at least 428 National Board Certified teachers working in Maryland public schools in the 2004-2005 school year. The Sharon Christa McAuliffe Memorial Teacher Education Award program pays higher education costs for teacher education students who agree to teach in Maryland public schools after graduation. The proposed fiscal 2007 State budget includes \$574,027 for the program. Mentoring programs and teacher salary initiatives have also received State funding in prior years.

Despite these efforts, the State continues to experience teacher shortages. In the *Maryland Teacher Staff Report 2005-2007*, the State Board of Education reported teacher shortages for all 24 of Maryland's local school systems. Critical areas of shortage included dance and theatre; family and consumer science and technology education; computer science; early childhood education; English for speakers of other languages; mathematics; political science; science; Spanish; and special education. The report also declared shortages of male and minority teachers.

Although the teacher shortage has been a concern for several years, the federal No Child Left Behind Act of 2001 (NCLB) has brought additional attention to the issue. NCLB

requires all core academic courses to be taught by highly qualified teachers by 2006. Recently released 2005 data for Maryland show that many school systems in Maryland have not come close to achieving this standard. The percentage of 2005 courses that were taught by highly qualified teachers in each school system is shown in **Exhibit 1**. Statewide, approximately three-quarters of courses were taught by highly qualified teachers, with percentages for individual school systems ranging from 42% in Baltimore City to nearly 94% in Allegany County.

Exhibit 1
Percentage of Courses Taught by Highly Qualified Teachers
2004 – 2005 School Year

Allegany	93.6%	Harford	88.9%
Anne Arundel	84.0%	Howard	84.2%
Baltimore City*	42.1%	Kent	75.1%
Baltimore	77.7%	Montgomery	80.3%
Calvert	85.5%	Prince George's	62.0%
Caroline	87.0%	Queen Anne's	81.1%
Carroll	85.6%	St. Mary's	89.6%
Cecil	86.9%	Somerset	75.8%
Charles	59.2%	Talbot	87.8%
Dorchester	56.5%	Washington	84.4%
Frederick	86.4%	Wicomico	80.5%
Garrett	90.1%	Worcester	86.2%

Maryland 75.3%

* Figure for Baltimore City does not include Edison Schools.
Source: Maryland State Department of Education

Exhibit 2 lists the number of teachers hired in the 2004-2005 school year, and the number of teachers who were hired who had no previous teaching experience and had a standard or advanced professional certificate.

Exhibit 2
New Hires by County
2004-2005

<u>County</u>	<u>Total New Hires</u>	<u>Percent Certified with No Prior Experience</u>	<u>New Certified Hires with No Prior Experience</u>
Allegany	38	87%	33
Anne Arundel	727	36%	261
Baltimore City	449	59%	267
Baltimore	889	53%	469
Calvert	104	44%	46
Caroline	42	71%	30
Carroll	205	6%	12
Cecil	130	59%	77
Charles	283	48%	135
Dorchester	46	35%	16
Frederick	263	37%	96
Garrett	23	61%	14
Harford	233	55%	129
Howard	325	51%	167
Kent	12	50%	6
Montgomery	970	49%	479
Prince George's	1,281	12%	155
Queen Anne's	58	36%	21
St. Mary's	113	50%	57
Somerset	21	0%	-
Talbot	30	23%	7
Washington	161	55%	89
Wicomico	115	79%	91
Worcester	58	43%	25
Edison Schools	41	20%	8
Total	6,617	41%	2,690

Source: Maryland State Department of Education

The Maryland State Department of Education (MSDE) estimates that a total of 7,572 teachers will be hired in the 2005-2006 school year and that 7,465 teachers will be hired in the 2006-2007 school year.

State Revenues: The bill provides that credits can be claimed beginning in tax year 2007; provided the governing body of a county or Baltimore City has authorized, by law, that the credit can be claimed by its teachers. As a result general fund revenues could decrease by approximately \$2.2 million in fiscal 2008 if all counties authorized the credit. To the extent that some counties do not authorize the credit, revenue losses would be less than estimated.

This estimate is based on the estimated number of teachers who were hired in the 2004-2005 school year who had no previous experience and had a standard or advanced professional certificate. This number is increased based on the number of teachers that MSDE anticipates will be hired in the next two years and by the estimated change in school enrollment thereafter. It is also assumed that 10% of teachers cannot claim the credit due to the requirement that the teachers must reside in the county in which they teach, and that approximately 15% of teachers do not return for a second year of teaching.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,850 in fiscal 2008 to add the credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing. The Comptroller's Office would also incur additional, ongoing expenses due to additional data verification requirements. Based on the estimated number of taxpayers who would claim the credit, Legislative Services advises that the ongoing costs can be absorbed within existing budgeted resources.

Local Revenues: If all counties authorized the tax credit in tax year 2007, local revenues could decrease by approximately \$1.3 million in fiscal 2008 and by \$2.5 million beginning in fiscal 2009. The extent of the revenue loss to any one county would depend on the number of teachers hired by the county in that year, and how many of these teachers meet the qualifications of the bill.

Additional Information

Prior Introductions: None.

Cross File: SB 133 (Senator Middleton) – Budget and Taxation.

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

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