

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 258

(Senator Brochin, *et al.*)

Budget and Taxation

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 2006; (2) 50% in tax year 2007; and (3) 75% for tax years 2008 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, 2006 and applies to tax years 2006 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by \$8.4 million in FY 2007; future years reflect an increased number of public school teachers and the phased-in percentage of the credit. General fund expenditures would increase by \$32,900 in FY 2007 due to one-time tax form changes and computer expenses.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$8.4)	(\$17.4)	(\$21.3)	(\$21.5)	(\$21.7)
GF Expenditure	0	0	0	0	0
Net Effect	(\$8.5)	(\$17.4)	(\$21.3)	(\$21.5)	(\$21.7)

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

Local Effect: Under current federal law, local revenues would not be affected. To the extent that the U.S. Congress extends the federal deduction for teacher classroom supplies, local government revenues would increase. No effect on expenditures.

Small Business Effect: Minimal.

Analysis

Current Law: No income tax credit of this type exists under the Maryland income tax.

Background: 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. 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). Currently, this provision is terminated. However, both the U.S. House and Senate have passed legislation that would extend the federal deduction; HR 4297, the Tax Relief Extension Reconciliation Act of 2005. The House version proposes to extend the deduction through tax year 2006 while the Senate proposes to extend the deduction through tax year 2007.

The bill requires a taxpayer to 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, if any, by the federal deduction. For a typical teacher, the educator expense deduction would reduce 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.

State Revenues: General fund revenues would decrease by \$8.4 million in tax year 2006, resulting in a general fund revenue decrease of \$8.4 million in fiscal 2007. This estimate is based on the following facts and assumptions.

- There were approximately 56,200 full-time public elementary and secondary school teachers in 2004. The number of teachers is estimated to increase by approximately 1% annually.

- According to the National Center for Education Statistics, there were approximately 13,800 full-time private elementary and secondary school teachers in 2004. The number of teachers is estimated to increase by approximately 1% annually.
- 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 \$486 in tax year 2006 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.

To the extent that the U.S. Congress extends the federal deduction, revenue losses would be less than estimated. Under current proposals, the deduction would be extended through tax year 2007. If extended in tax year 2006 and 2007, revenue losses from the bill would decrease by approximately \$402,100 in fiscal 2007 and \$826,400 in fiscal 2008.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,850 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.

Local Revenues: Under current federal law, local government revenues would not be affected as the federal deduction for classroom expenses is expired. If extended in tax year 2006 and 2007, local government revenues would increase by approximately \$253,400 in fiscal 2007 and \$521,900 in fiscal 2008.

Additional Information

Prior Introductions: Identical bills were introduced as HB 798 of 2004 and HB 26 of 2005. A similar bill was introduced as HB 3 of 2003. All three bills received unfavorable reports from the House Ways and Means Committee.

Cross File: HB 744 (Delegate Trueschler, *et al.*) – Ways and Means.

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

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