

**Department of Legislative Services**  
**Maryland General Assembly**  
**2007 Session**

**FISCAL AND POLICY NOTE**

House Bill 531  
Ways and Means

(Delegate Frank, *et al.*)

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**Income Tax - Tax Credit - Donations for Scholarships at Institutions of Higher Education**

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This bill creates an income tax credit for 75% of the contributions made by a business or nonprofit organization for the purpose of providing scholarships for students attending a four-year public or private institution of higher education in the State. Contributions can be made to the institution or to an affiliated nonprofit organization that provides scholarships to students attending the institution. The maximum value of the credit may not exceed \$200,000. The Maryland Higher Education Commission (MHEC) can approve a maximum of \$25 million in credits annually.

The bill takes effect July 1, 2007 and applies to tax year 2008 and beyond.

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**Fiscal Summary**

**State Effect:** State revenues could decrease by \$23.5 million annually beginning in FY 2009. General fund expenditures could increase by \$84,800 in FY 2008, which reflects implementation costs at MHEC and the Comptroller's Office. Future years reflect estimated ongoing implementation costs at MHEC.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF/SF Rev.	\$0	(\$23,531,300)	(\$23,531,300)	(\$23,531,300)	(\$23,531,300)
GF Expenditure	84,800	63,300	66,600	70,100	73,800
Net Effect	(\$84,800)	(\$23,594,600)	(\$23,597,900)	(\$23,601,400)	(\$23,605,100)

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

**Local Effect:** If half of the credits were claimed against the corporate income tax, local highway user revenues distributed from the Transportation Trust Fund (TTF) would decrease by approximately \$847,100 annually beginning in FY 2009. Expenditures would not be affected.

**Small Business Effect:** Minimal.

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## **Analysis**

**Bill Summary:** The bill authorizes MHEC to approve \$25 million annually in tax credits for businesses and nonprofit organizations that provide contributions for the purpose of providing scholarships to students attending private and public four-year institutions of higher education in the State. A total of \$15 million is to be allocated to public institutions and \$10 million is to be allocated to private institutions. The value of the credit is equal to 75% of the eligible donation. Any unused amount of the credit may not be carried forward to any other tax year. Organizations claiming the credit must add back to Maryland adjusted gross income the amount of credit claimed.

Organizations seeking the tax credit must apply to MHEC for the contribution it intends on making in the tax year; applications are approved on a first-come first-served basis until the total cap for the year is reached. Upon receipt from MHEC that the organization has been approved for the tax credit, the organization must make its contribution within 30 days of the date of the notification letter, and has to provide proof of the contribution to MHEC. If MHEC does not receive proof that the contribution was made within 30 days of the date of the notification letter, the tax credit is rescinded.

MHEC is required to: (1) approve tax credit applications; (2) report specified information about the tax credit to the General Assembly by January 10 of each year; and (3) adopt regulations jointly with the Comptroller to implement the program.

**Current Law:** No similar tax credit exists, although businesses can typically deduct contributions for scholarships as charitable donations; which typically lowers federal and State income tax liability.

**Background:** MHEC advises that 13 public and 18 private institutions of higher education would qualify for contributions under the bill.

**State Revenues:** MHEC could approve a maximum of \$25 million in credits beginning in tax year 2008. As a result, general fund revenues could decrease by \$20.7 million annually beginning in fiscal 2009 and TTF revenues could decrease by \$2.8 million. It is estimated that the maximum amount of credits would be awarded in each year. Any credit amount claimed is required to be added back to Maryland adjusted gross income. It is assumed that credits would be claimed equally between the corporate and personal income, resulting in additional tax liabilities of \$1.5 million.

**State Expenditures:** MHEC reports that it would need one analyst staff position to implement and administer the tax credit program. Accordingly, general fund expenditures would increase by \$50,831 in fiscal 2008, which reflects a three-month implementation time before credits can be approved. The estimate includes a salary, fringe benefits, and ongoing operating expenses.

Positions	1
Salary and Fringe Benefits	\$46,083
Operating Expenses	<u>4,748</u>
<b>Total FY 2008 MHEC Expenditures</b>	<b>\$50,831</b>

Future year expenditures reflect: (1) 4.5% annual increases in salary and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 in fiscal 2008 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 18, 2007  
ncs/hlb

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