

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 163 (Delegate Burns, *et al.*)
 Ways and Means

Income Tax Credit - Child Support - Incarcerated Noncustodial Parent

This bill creates a tax credit against the State income tax for custodial parents who are unable to collect outstanding child support obligations. To qualify, the court-ordered child support obligations must be at least 180 days in arrears; the child support obligor must be incarcerated and unable to make the child support payments; 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, 2007 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by \$3.0 million annually beginning in FY 2008 due to credits being claimed by eligible individuals. General fund expenditures would increase by \$34,000 in FY 2008 which reflects one-time tax form changes and computer programming expenditures.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$2.95)	(\$2.98)	(\$3.01)	(\$3.04)	(\$3.07)
GF Expenditure	.03	0	0	0	0
Net Effect	(\$2.99)	(\$2.98)	(\$3.01)	(\$3.04)	(\$3.07)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax credit exists, but lower-income individuals with children can qualify for 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. The federal Joint Committee on Taxation estimates that in federal fiscal year 2007 individuals will claim approximately \$42.8 billion in federal earned income credits. 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 2005, individuals claimed a total of \$91.4 million in State refundable earned income credits and \$70.3 million in earned income credits.

According to CSEA, in federal fiscal year 2006, 265,146 child support orders were in force and \$482.6 million in child support was collected. CSEA estimates that in fiscal 2008, one-third of families will not receive child support to which they are entitled.

State Revenues: Tax credits could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by \$3.0 million in fiscal 2008. This estimate is based on the following facts and figures:

- According to CSEA, 5,670 custodial parents could qualify for the tax credit. CSEA also advises that approximately one-tenth of these individuals receive some type of public assistance. It is assumed that these individuals currently do not have a State income tax liability.
- Based on the income range specified by the bill, individuals would claim, on average, approximately \$511 in tax year 2007.

The average credit claimed would be lower, and in some cases zero, for lower-income individuals. Since the bill is limited to the taxpayer's total income tax liability for the year, any individual currently claiming the refundable earned income credit would not benefit from the proposed tax credit. Approximately 12% of all taxpayers (including

those who do not have a dependent and cannot claim the State refundable earned income credit) in the income range specified by the bill claim the refundable earned income credit.

State Expenditures: 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 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): Comptroller's Office, Department of Human Resources, Department of Legislative Services

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Analysis by: Robert J. Rehrmann

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