

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 995
Ways and Means

(Delegate Walker, *et al.*)

Income Tax - Subtraction Modification - Donations to Public Schools

This bill creates a subtraction modification under the State income tax for businesses that donate money to public elementary or secondary schools. The amount of the subtraction modification equals 150% of the donation, not to exceed \$10,000.

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

Fiscal Summary

State Effect: The impact on State revenues cannot be reliably estimated at this time. The amount of revenue loss would depend on the number of businesses that would make contributions, the amount contributed (up to the maximum specified by the bill), and the amount of contributions that businesses are currently making. No effect on expenditures.

Local Effect: Local government revenues would decrease due to a decline in local highway user revenues distributed from the corporate income tax and the decline in local income tax revenues due to subtraction modifications taken against the personal income tax.

Small Business Effect: None.

Analysis

Current Law: No similar State subtraction modification exists, although businesses could typically deduct any donation made as a charitable contribution, which typically would result in a lower federal and State tax liability.

State Revenues: The actual cost of the bill, which cannot be reliably estimated at this time, depends on the number of taxpayers claiming the deduction and the total amount of expenditures eligible for the deduction.

However, based on tax credit programs for donations to public and/or private schools in Arizona, North Dakota, Pennsylvania, and Florida and on the amount that is donated by businesses to Baltimore City parochial schools, Legislative Services estimates that State revenues could decrease by \$4.5 million annually beginning in fiscal 2008. This estimate assumes \$26 million in annual contributions to public schools and that more than 90% of these donations are not currently being made by businesses either directly to schools or through parent teacher associations. Businesses claiming the subtraction modification would be able to deduct the amount as a charitable donation for federal tax purposes, resulting in additional reductions in State income tax liability.

Local Revenues: If three-quarters of all credits were claimed against the corporate income tax, local income tax revenues would decrease by \$710,500 annually beginning in FY 2008 and local highway user revenues would decrease by \$243,000 annually.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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