

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 955 (Delegate Haddaway, *et al.*)
 Ways and Means

Income Tax - Subtraction Modification - Foster Parents

This bill creates a subtraction modification under the State income tax for qualified foster parents. Foster parents can claim a \$3,500 subtraction modification if • they have been approved by a local department of social services to provide foster care in the State for at least one year as of the end of the tax year; • and have had at least one placement for any duration during the tax year.

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

Fiscal Summary

State Effect: General fund revenues could decrease by \$376,700 in FY 2009. Future year losses reflect estimated increase in eligible foster parents. Expenditures would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$376,700)	(\$411,200)	(\$448,800)	(\$489,900)	(\$534,700)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$376,700)	(\$411,200)	(\$448,800)	(\$489,900)	(\$534,700)

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

Local Effect: Local income tax revenues could decrease by \$240,800 in FY 2009 and by \$341,800 in FY 2013. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: No similar State subtraction modification exists. Under Section 113 of the Internal Revenue Code, any foster care payments received are not taxable.

Background: The State's foster care caseload totaled 2,451 in fiscal 2007 and is estimated at 2,466 for fiscal 2009. The number of foster parents decreased by more than 1,000 between 2003 and 2007, despite the State increasing monthly foster payments over the last several years from \$535 to \$735. The Governor recently announced a foster parent recruitment campaign that has a goal of gaining an additional 1,000 foster homes by 2010.

State Revenues: Subtraction modifications could be claimed beginning in tax year 2008. As a result, general fund revenues could decrease by approximately \$376,700 in fiscal 2009 and by \$534,700 in fiscal 2013. This estimate is based on the following facts and assumptions:

- An estimated 2,466 tax returns would claim the subtraction in tax year 2008.
- 10% of tax returns are nontaxable.
- The number of eligible individuals increases by 10% annually, totaling 3,500 in tax year 2012.

Exhibit 1 lists the average reduction in State and local taxes provided by the bill.

Exhibit 1 Average State and Local Taxes Savings Tax Year 2008

<u>Number of Claimants</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
2,219	\$170	\$109	\$279

Local Revenues: Local income tax revenues would decrease by about 3% of the additional amount of exemptions claimed. Local income tax revenues would decrease by \$240,800 in fiscal 2009, \$262,800 in fiscal 2010, \$286,900 in fiscal 2011, \$313,100 in fiscal 2012, and \$341,800 in fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: SB 666 (Senator Colburn) – Budget and Taxation.

Information Source(s): Department of Human Resources, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2008
mll/hlb

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