

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

House Bill 516  
 Judiciary

(Delegates Kach and Olszewski)

**Income Tax - Child Support Enforcement Tax**

This bill repeals the authority of the Child Support Enforcement Administration to deduct from child support payments an annual collection fee of \$25 from cases in which the family never received Temporary Cash Assistance and has received at least \$500 in child support payments during the federal fiscal year. The bill also levies an income tax of \$25 for any year in which an obligor is subject to the State Income Tax Refund Intercept Program.

The bill takes effect July 1, 2008 and applies to tax year 2009 and beyond.

**Fiscal Summary**

**State Effect:** Special fund revenues would decrease by \$280,500 in FY 2009 due to repeal of CSEA’s authority to impose annual fees. Special fund revenues would increase by \$1.7 million annually beginning in FY 2010 due to imposition of a new tax on obligors. Federal fund revenues would decrease by \$1.2 million annually. Expenditures decrease by \$29,800 in FY 2009 due to the elimination of program expenditures at CSEA.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	(\$280,500)	\$1,652,600	\$1,652,600	\$1,652,600	\$1,652,600
FF Revenue	(1,234,000)	(1,234,000)	(1,234,000)	(1,234,000)	(1,234,000)
GF Expenditure	(10,400)	0	0	0	0
FF Expenditure	(19,400)	0	0	0	0
Net Effect	(\$1,484,700)	\$418,600	\$418,600	\$418,600	\$418,600

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

**Local Effect:** None.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** An “obligor” is an individual who is required to pay support under a court order. An “obligee” is any person who is entitled to receive support and may include a State government.

Chapter 483 of 2007 authorized CSEA to deduct from child support payments an annual collection fee of \$25 from cases in which the family never received Temporary Cash Assistance and has received at least \$500 in child support payments during the federal fiscal year. The authority to deduct this fee terminates on September 30, 2008.

Under the State Income Tax Refund Intercept Program, CSEA may certify to the State Comptroller any obligor who is in arrears of support payments amounting to more than \$150 under a court order, if: (1) CSEA has accepted an assignment of support; and (2) the obligee has filed an application for support enforcement services with CSEA. The Comptroller’s Office is required to remit to CSEA the income tax refund (up to the amount of arrearage) of an obligor certified as being in arrears.

CSEA may also charge an initial application fee of not more than \$25 for support services and may deduct the cost of providing services under the Income Tax Refund Intercept Program or the Federal Treasury Offset Program from the child support payment. CSEA may collect fees from the obligor to defray the cost of providing support enforcement services. Otherwise, CSEA may not collect fees from the support obligee or deduct fees from the child support payment.

Other than the initial application fee and any deduction for services to collect support payments under the Income Tax Refund Intercept Program or the Federal Treasury Offset Program, CSEA may not collect fees from the support obligee or deduct fees from the child support payment.

**Background:** Under the Federal Deficit Reduction Act of 2005, states must assess an annual \$25 fee to child support cases in which the family has never received benefits under the TCA program and at least \$500 in child support is collected within a federal fiscal year. The federal government will deduct 66% of the estimated revenue that could be generated from this fee from the State’s Federal Financial Participation matching grant. Chapter 483 of 2007 was enacted in response to this federal requirement.

To provide the current level of child support services, CSEA must recoup this amount or replenish the amount with general funds. CSEA plans to recoup the loss of federal funds by deducting an annual \$25 fee from the child support payments of families who have never received TCA and for whom at least \$500 is collected in child support payments during the federal fiscal year. CSEA advises that the federal government would regard the estimated proceeds from the proposed fee as revenue to the State and would reduce the State's federal fund matching grant accordingly even if the State elected not to impose this fee on the obligor parent.

During federal fiscal 2007, CSEA processed 24,816 cases involving families who receive TCA and \$10.6 million was collected. In that same period, 121,454 cases involving families who have never received TCA were processed and \$339.9 million was collected.

In tax year 2006, the Comptroller's Office intercepted a total of \$6.6 million in income tax refunds from 12,510 individuals with child support obligations in arrears.

**State Revenues:** The bill repeals CSEA's authority to impose a fee and replaces it with a tax on obligors subject to the State Income Tax Refund Intercept Program beginning in tax year 2009. Under current law, CSEA would collect an estimated \$280,500 through the end of October 1, 2008. As a result, special fund revenues could decrease \$280,500 in fiscal 2009. Beginning in fiscal 2010 special fund revenues would increase by \$1.7 million annually due to the new tax.

The estimated annual revenue generated by the tax is based on the following assumptions:

- as of January 1, 2007, CSEA has certified that the tax refunds of 109,628 individuals are to be intercepted;
- the Comptroller's Office would not collect the tax from about one-third of the individuals who do not reside in Maryland; and
- taxes will be collected on the remaining 90% of individuals due to compliance difficulties and/or lack of tax liability of individuals.

Anticipated federal fund revenue attainment would be reduced by \$1.2 million annually. This reduction of federal fund revenues is required under the federal Deficit Reduction Act of 2005 whether the State imposes the child support fee or not.

**State Expenditures:** Total fund expenditures at CSEA are expected to decrease by \$29,800 in fiscal 2009 (\$19,400 federal funds/\$10,400 general funds) due to elimination of the program at CSEA.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Human Resources, Comptroller's Office,  
Department of Legislative Services

**Fiscal Note History:** First Reader - February 12, 2008  
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