

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1064
Ways and Means

(Delegate Ramirez, *et al.*)

**Income Tax - Subtraction Modification - Donations for Classroom Libraries in
Public Elementary Schools**

This bill creates a subtraction modification under the State income tax for 150% of a monetary contribution made by a business during the tax year to a public elementary school for the establishment or continued operation of a classroom library. The total amount claimed may not exceed \$10,000.

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

Fiscal Summary

State Effect: General fund revenues decrease by \$622,000 annually beginning in FY 2010 and Transportation Trust Fund (TTF) revenues decrease by \$111,000, of which the State share is \$77,700. General fund expenditures increase by \$20,700 in FY 2010 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$622,000)	(\$622,000)	(\$622,000)	(\$622,000)	(\$622,000)
SF Revenue	(\$111,000)	(\$111,000)	(\$111,000)	(\$111,000)	(\$111,000)
GF Expenditure	\$20,700	\$0	\$0	\$0	\$0
Net Effect	(\$753,700)	(\$733,000)	(\$733,000)	(\$733,000)	(\$733,000)

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

Local Effect: Local income tax revenues and local highway user revenues distributed from the TTF decrease by approximately \$36,600 annually beginning in FY 2010. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law/Background: No similar subtraction modification exists, although businesses can deduct contributions to public schools as charitable donations, which typically lowers federal and State income tax liability.

Exhibit 1 illustrates the existing tax benefits and proposed tax benefit for a contribution for a classroom library that would qualify for the maximum benefit under the bill. A donation of \$6,667 is the maximum amount that will qualify for the maximum \$10,000 subtraction modification.

Exhibit 1 Existing and Proposed Tax Benefits

	<u>Corporate</u>	<u>Personal</u>
Donation	\$6,667	\$6,667
<i>Tax Benefits Under Current Law</i>		
Federal Taxes	\$2,333	\$1,867
State Taxes	550	333
Local Taxes	0	200
<i>Additional Tax Benefit Under HB 1064</i>		
State	\$825	\$500
Local	0	300
Total Tax Benefits	\$3,708	\$3,200
Percent of Donation	56%	48%

State Revenues: Subtraction modifications can be claimed beginning in tax year 2009. As a result, general fund revenues and TTF revenues will decrease significantly beginning in fiscal 2010. The bill provides that up to 150% of the donation can be claimed as a subtraction modification. **Exhibit 2** shows the State and local revenue loss depending on the number of donations per elementary school. It is assumed that each donation is for the maximum amount and 75% of donations are from corporations. For purposes of this fiscal and policy note, it is assumed that a maximum donation of \$6,667 is provided at each of the State's 881 public elementary schools.

Exhibit 2
Total Donations per Elementary School – State and Local Revenue Loss

Number	1	5	10	25	100
Total Donations	\$6,667	\$33,335	\$66,670	\$166,675	\$666,700
State Revenue Loss					
Total Revenues	\$622,000	\$3,109,900	\$6,219,800	\$15,549,300	\$62,197,300
General Fund	544,300	2,721,300	5,442,700	13,606,600	54,426,300
TTF– MDOT	77,700	388,600	777,100	1,942,700	7,771,000
Local Revenue Loss					
Total Revenues	\$36,600	\$183,000	\$366,000	\$915,200	\$3,660,800
Highway User Revenues	33,300	166,500	333,000	832,600	3,330,400
Local Income Taxes	3,300	16,500	33,000	82,600	330,400

State Expenditures: The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$20,700 in fiscal 2010 to add the subtraction modification 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.

Local Revenues: Local highway user revenues and local income tax revenues will decrease as a result of subtraction modifications claimed against the corporate income tax and personal income tax. Exhibit 2 illustrates the potential local income tax revenues from the bill.

Additional Comments: Local school systems spent approximately \$219.1 million in fiscal 2007 on textbooks and instructional supplies as shown in **Exhibit 3**. Of this amount, \$19.8 million was used to purchase library media supplies and library books. An additional \$55.2 million was spent on classroom textbooks and \$144.1 million was spent on other classroom supplies and materials. In fiscal 2007, State funding for public schools totaled \$4.5 billion, of which \$4.0 billion went directly to the local school system and \$446.1 million went to fund teachers’ retirement payments.

Prior Introductions: None.

Cross File: None.

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

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Exhibit 3
Local School System Expenditures in Fiscal 2007
Textbooks and Instructional Supplies

County	Textbooks	Library Media and Books	Other Supplies and Materials	Total
Allegany	\$100,606	\$86,010	\$2,258,626	\$2,445,242
Anne Arundel	2,083,712	1,557,708	11,600,623	15,242,043
Baltimore City	12,221,978	18,245	15,356,288	27,596,510
Baltimore	9,397,717	1,552,442	15,473,822	26,423,981
Calvert	1,234,000	202,388	1,855,931	3,292,319
Caroline	394,229	91,003	768,211	1,253,443
Carroll	1,795,985	430,156	5,452,760	7,678,901
Cecil	700,652	203,494	2,191,152	3,095,297
Charles	1,943,455	563,212	8,168,231	10,674,898
Dorchester	453,761	17,394	1,040,920	1,512,075
Frederick	2,510,852	713,803	7,148,025	10,372,681
Garrett	539,453	63,599	517,794	1,120,845
Harford	2,818,921	1,622,205	6,308,630	10,749,756
Howard	2,986,968	991,052	5,001,434	8,979,454
Kent	223,653	5,710	481,469	710,831
Montgomery	9,230,570	5,020,054	22,625,752	36,876,376
Prince George's	1,458,615	5,358,250	21,452,344	28,269,209
Queen Anne's	426,134	96,308	1,371,564	1,894,006
St. Mary's	703,645	287,932	2,491,253	3,482,830
Somerset	251,773	0	1,039,954	1,291,727
Talbot	365,505	100,180	671,877	1,137,562
Washington	1,710,284	416,682	6,006,519	8,133,485
Wicomico	1,244,006	236,086	2,670,712	4,150,804
Worcester	420,750	188,305	2,128,684	2,737,738
Total	\$55,217,222	\$19,822,218	\$144,082,574	\$219,122,014