

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE

House Bill 926 (Delegate Burns)  
 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, 2009, and applies to tax year 2009 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$3.9 million in FY 2010. Future year revenues reflect additional individuals receiving credits and higher credit amounts. General fund expenditures increase by \$37,400 in FY 2010 which reflects one-time tax form changes and computer programming expenditures at the Comptroller’s Office.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$3.86)	(\$3.98)	(\$4.10)	(\$4.22)	(\$4.35)
GF Expenditure	\$.04	\$0	\$0	\$0	\$0
Net Effect	(\$3.90)	(\$3.98)	(\$4.10)	(\$4.22)	(\$4.35)

*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:** 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) and U.S. Department of Treasury task force estimated that nationwide EIC lifted 4.3 million individuals, including 2.3 million children, out of poverty in 2000. 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 25% of the federal EIC, minus any pre-credit State income tax liability.

**State Revenues:** Tax credits can be claimed beginning in tax year 2009. As a result, general fund revenues will decrease by \$3.9 million in fiscal 2010. This estimate is based on the following facts and assumptions:

- According to CSEA, 6,189 custodial parents would have qualified for the tax credit in January 1, 2008. 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 will claim, on average, approximately \$700 in tax year 2009.
- Future year revenue losses reflect a 1% increase in individuals claiming the credit and a 2% increase in the average credit claimed.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$37,400 in fiscal 2010 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.

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## Additional Information

**Prior Introductions:** HB 294 of 2008 received a hearing in the House Ways and Means Committee but was withdrawn. HB 163 of 2007 received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 8, 2009  
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