

Department of Legislative Services  
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 138 (Senator Young, *et al.*)  
Budget and Taxation

**Income Tax - Subtraction Modification - Segal AmeriCorps Education Award**

This bill exempts from the State income tax an award received under the Segal AmeriCorps Education Award Program.

The bill takes effect July 1, 2012, and applies to tax year 2013 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by about \$101,700 in FY 2014. Future year revenue losses increase by 2% annually. General fund expenditures increase by \$22,000 in FY 2014 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	\$0	(\$101,700)	(\$103,700)	(\$105,800)	(\$107,900)
GF Expenditure	\$0	\$22,000	\$0	\$0	\$0
Net Effect	\$0	(\$123,700)	(\$103,700)	(\$105,800)	(\$107,900)

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

**Local Effect:** Local income tax revenues decrease by \$64,200 in FY 2014 and by \$68,100 in FY 2017. Expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** State law generally conforms to the federal tax treatment of education benefits except as discussed below. Qualified tuition reductions, academic awards, scholarships, and fellowships are taxable under the federal income tax unless certain conditions are satisfied. In general, amounts received by degree-seeking students that are spent on qualifying expenses (tuition, fees, books, and supplies) are exempt from taxation. However, any scholarship, fellowship, or tuition reduction that represents payment for past, present, or future teaching, research, or other services is taxable.

Under federal law, an individual may deduct qualified tuition and related expenses incurred during the year. This deduction can be taken whether or not the taxpayer itemizes deductions and has a maximum value of \$4,000. The deduction is available through calendar 2011. The Budget Reconciliation and Financing Act of 2002 decoupled the State income tax from the federal provision. The benefit is not allowed for State income tax purposes, so an individual claiming the deduction must add-back the amount of the deduction when determining State income tax liability.

**Background:** Individuals who successfully complete one or more terms of AmeriCorps service earn a Segal AmeriCorps Education Award that can be used to repay qualified student loans, pay education expenses at a qualified institution of higher education, or repay eligible interest expenses. An institution is qualified if it has been authorized by the Department of Education to receive other federal student aid, such as Pell grants, Perkins loans, and Stafford loans. Beginning with terms of service that started on or after October 1, 2009, the award may be used to pay expenses incurred in enrolling in an educational institution or training establishment that is approved under the GI Bill. AmeriCorps members generally have seven years from the completion of their service to use their award. Since 1995 7,371 awards totaling \$24.5 million have been provided to students attending eligible institutions in Maryland.

AmeriCorps currently advises recipients that an award is subject to federal income tax in the year the payment is made. It is considered taxable income regardless of whether it is used for current educational expenses or to repay a qualified student loan. If a recipient uses the entire amount of the award in one calendar year, the entire amount must be included as income on the recipient's tax return for that year. If a portion of the education award is used in a calendar year, taxes are paid on that portion. Interest that is paid on qualified student loans is also subject to income tax in the year it is made to the loan holder.

**State Revenues:** Subtraction modifications may be claimed beginning in tax year 2013. It is assumed that most taxpayers do not adjust withholdings and estimated payments.

As a result, revenues will decrease by \$101,700 in fiscal 2014. This estimate is based on the following assumptions:

- In 2011, 1,140 awards totaling \$3.1 million were made to individuals attending an eligible institution in Maryland.
- An estimated 20% of students attending these schools are nonresidents.
- From 1995 through 2011 individuals have earned \$2.0 billion in awards and have used \$1.4 billion for education expenses.
- Nontaxable returns reduce revenue losses by 15%.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$22,000 in fiscal 2014 to add the subtraction modification to the personal income tax return. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

**Local Revenues:** Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Accordingly, local government revenues decrease by \$64,200 in fiscal 2014, \$65,500 in fiscal 2015, \$66,800 in fiscal 2016, and \$68,100 in fiscal 2017.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 790 (Delegate Mizeur) - Ways and Means.

**Information Source(s):** AmeriCorps, Comptroller's Office, Internal Revenue Service, National Center for Education Statistics, Department of Legislative Services

**Fiscal Note History:** First Reader - February 20, 2012  
ncs/jrb

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