

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

Senate Bill 824 (Senator Kittleman, *et al.*)
 Budget and Taxation

Income Tax Credit - Classroom Expenses for Teachers

This bill creates a State income tax credit for classroom expenses and supplies that are purchased by a teacher. The amount of the credit cannot exceed \$500 or the tax liability imposed in that year. Any unused amount of the credit may not be carried forward to any other taxable year. The Comptroller is required to adopt regulations to implement the bill and specify the documentation necessary to claim the credit.

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

Fiscal Summary

State Effect: General fund revenues decrease by \$33.2 million in FY 2014 due to tax credits claimed against the personal income tax. Future year revenue decreases reflect a 0.5% annual increase in eligible taxpayers. General fund expenditures increase by \$48,000 in FY 2014 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$33.2)	(\$33.3)	(\$33.5)	(\$33.7)	(\$33.8)
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$33.2)	(\$33.3)	(\$33.5)	(\$33.7)	(\$33.8)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: No similar State income tax credit exists. However, for federal income tax purposes, eligible educators can deduct up to \$250 (\$500 if married filing jointly) for unreimbursed expenses including for books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials used in the classroom. This deduction is available regardless of whether the taxpayer itemizes deductions. Eligible educators include a K-12 teacher, instructor, counselor, principal, or aide who works at least 900 hours in a school year. This deduction reduces federal adjusted gross income, which in turn reduces State income tax liability by flowing through to Maryland adjusted gross income (MAGI). Federal legislation has extended the deduction numerous times and the deduction is currently available through tax year 2013. The federal deduction reduces State revenues by about \$900,000 annually and local income tax revenues by about \$600,000 annually.

State Revenues: Tax credits may be claimed beginning in tax year 2013. As a result, general fund revenues will decrease by \$33.2 million in fiscal 2014. This estimate is based on the following facts and assumptions:

- 79,300 Maryland tax returns claimed the federal deduction in tax year 2010;
- 75% of taxpayers claiming the federal credit qualify for the credit proposed by the bill;
- public school enrollment is forecasted to increase by about 0.5% annually; and
- eligibility for the proposed credit is limited to K-12 public and nonpublic teachers.

The bill does not require that a taxpayer add back to MAGI any amount of credit claimed to the extent excluded from federal adjusted gross income. An educator claiming the State tax credit will gain the benefit of both the State credit and the federal deduction, if the deduction is available. A typical taxpayer who makes a \$500 deduction will receive \$582 in federal, State, and local tax benefits. In addition, the bill also does not require that the expenses are unreimbursed. It is therefore estimated that the maximum credit of \$500 will be claimed each year.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$48,000 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

Additional Information

Prior Introductions: Similar bills were introduced in the 2003, 2004, and 2005 sessions. HB 26 of 2005, HB 798 of 2004, and HB 3 of 2003 all received unfavorable reports from the House Ways and Means Committee.

Cross File: HB 513 (Delegate Schuh, *et al.*) - Ways and Means.

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

Fiscal Note History: First Reader - March 11, 2013
mc/jrb

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