

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

Senate Bill 271 (Senator Jacobs, *et al.*)
 Budget and Taxation

Income Tax Credit - Home Instruction Expenses

This bill creates a State income tax credit for specified home instruction expenses incurred by a parent or guardian. The amount of the credit cannot exceed \$1,000 or the income tax liability imposed in that year. Any unused amount of the credit may be carried forward for five taxable years. The Comptroller, in consultation with the Maryland State Department of Education (MSDE), is required to adopt regulations to implement the bill and specify the documentation necessary to claim the credit.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$25.0 million in FY 2015 due to tax credits claimed against the personal income tax. Future year revenue decreases reflect a 1.4% annual increase in eligible taxpayers. General fund expenditures increase by \$48,000 in FY 2015 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$25.0)	(\$25.4)	(\$25.7)	(\$26.1)	(\$26.5)
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$25.0)	(\$25.4)	(\$25.7)	(\$26.1)	(\$26.5)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill creates a State income tax credit for the home instruction expenses incurred by a parent or guardian. The amount of the credit cannot exceed \$1,000 or the tax liability imposed in that year. Any unused amount of the credit may be carried forward for five taxable years. Eligible home instruction expenses include (1) correspondence courses or distance learning programs; (2) instruction-related materials; (3) textbooks; or (4) workbooks. The home instruction program must be operated in compliance with specified regulations and be approved by MSDE. The Comptroller, in consultation with MSDE, is required to adopt regulations to implement the bill and specify the documentation necessary to claim the tax credit.

Current Law/Background: No similar State income tax credit exists.

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. Eligible educators include a K-12 teacher, instructor, counselor, principal, or aide who works at least 900 hours in a school year. However, according to the Internal Revenue Service, home instruction expenses incurred by a parent or guardian who home schools a child generally do not qualify. This federal deduction expired at the end of tax year 2013.

States that have similar tax credits as proposed by the bill include Minnesota, Louisiana, and Illinois.

A report from the National Center for Education Statistics (NCES) indicates that approximately 1.5 million students in 2007 were home schooled. This represented 2.9% of the elementary and secondary education students in the United States, and was an increase from 1.1 million students in 2003 and 850,000 students in 1999. In the 2007 survey conducted by NCES, 16% of home-schooled students were enrolled part time in a local school, with approximately 70% of these students enrolled for less than nine hours per week. More than one-third of the parents of home-schooled students (36%) reported the desire to provide religious or moral instruction as the most important reason for home schooling their child; another 21% reported concerns about the school environment and 17% reported dissatisfaction with academic instruction. MSDE reports that 24,300 students in Maryland were involved in home instruction during the 2012-2013 school year.

State Revenues: Tax credits may be claimed beginning in tax year 2014. As a result, general fund revenues will decrease by \$25.0 million in fiscal 2015. This estimate is based on the number of home-schooled children in the 2012-2013 school year and the following assumptions:

- the number of home-schooled children increased by 1.4% annually within the last three school years; and
- taxpayers claim the full amount of the credit in each tax year.

The bill specifies that a parent or guardian can claim a credit of up to \$1,000. Accordingly, the actual revenue loss will depend on the number of individuals who claim the credit and may differ from the estimate above.

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: None.

Cross File: None.

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

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mc/jrb

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