

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1381 (Delegate Platt, *et al.*)
 Ways and Means

Income Tax Preparers - Grant Program - Free Application for Federal Student Aid

This bill requires the Maryland Higher Education Commission (MHEC) to establish a grant program to encourage income tax preparers to prepare and file, on behalf of a client, the Free Application for Federal Student Aid (FAFSA) form. The program must require the income tax preparer to pay any filing fee applicable to the FAFSA form. In order to be eligible for a grant under the program, the income tax preparer must prepare and file the FAFSA form for a client that qualifies for the State earned income tax credit. MHEC must establish a grant application process, the amount of each grant, and verification of the use of each grant. A grant must be used to compensate an income tax preparer for the costs associated with filing the FAFSA form on behalf of a client. Funds for the program are as provided in the State budget.

The bill takes effect June 1, 2016, and terminates June 30, 2018.

Fiscal Summary

State Effect: No effect in FY 2016. General fund expenditures for MHEC increase by \$323,700 in FY 2017 for contractual staff, for one-time programming expenses necessary to establish and administer the grant program, and to provide grants to income tax preparers under the program. Future years reflect the elimination of one-time costs after FY 2017 and the elimination of the program after FY 2018. Revenues are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	323,700	266,500	0	0
Net Effect	\$0	(\$323,700)	(\$266,500)	\$0	\$0

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

Local Effect: None.

Small Business Effect: Meaningful. Small tax preparation businesses benefit from additional compensation for FAFSA filings made under the program.

Analysis

Current Law/Background:

FAFSA

The FAFSA form is used to determine the amount of money a family is expected to contribute to the price of attending a postsecondary institution. The results of the FAFSA form are used in determining a student's eligibility for grants, work-study, and loans. In addition to determining student eligibility for federal aid, primarily the federal Pell Grant, it is also used for determining eligibility for State financial assistance. The FAFSA form can be filed for free on the U.S. Department of Education's website – third-party sites not affiliated with the U.S. Department of Education may charge fees.

The FAFSA form serves as a critical application for the State's primary need-based financial aid program, the Delegate Howard P. Rawlings Educational Excellence Awards Program, which is composed of the Educational Assistance Grant Program, the Guaranteed Access Grant Program, and the Campus-Based Educational Assistance Grant Program. Students must file a FAFSA form by March 1 each year in order to be eligible for most State financial aid. According to a recent MHEC [report](#), approximately 200,000 Maryland students complete the FAFSA form each year. The report can be found on the Department of Legislative Services' website. Approximately 35% of Maryland students file the FAFSA form after the State's March 1 deadline, which makes them ineligible for most State financial aid, even though they may qualify based on their financial need. Of the approximately 130,000 FAFSA forms that are filed on time, approximately 20% of the students are from families with the lowest income, *i.e.*, \$0 expected family contribution. It is unknown how many students who may qualify for financial aid do not file the FAFSA form.

In order to file the FAFSA form, students and their families must complete their federal income tax returns for the prior year. In order to help more students and their families complete the FAFSA form and file it earlier, the U.S. Department of Education is allowing prior-prior year tax information to be used to file the FAFSA form beginning in October 2016.

Earned Income Tax Credit

First enacted in 1975, the federal earned income tax credit is a refundable tax credit offered to low-income workers. The federal credit has expanded significantly over time and is now one of the largest federal antipoverty programs. Maryland and about half of all states and the District of Columbia offer a state earned income tax credit that supplements the federal credit.

Maryland conforms to the federal eligibility standards – only those individuals who claim the federal earned income tax credit may claim the State credit. To be eligible in tax year 2016, a taxpayer must have earned income, investment income of \$3,400 or less, and a modified federal adjusted gross income of less than:

- \$47,955 (\$53,505 married filing jointly) with three or more qualifying children;
- \$44,648 (\$50,198 married filing jointly) with two qualifying children;
- \$39,296 (\$44,846 married filing jointly) with one qualifying child; and
- \$14,880 (\$20,430 married filing jointly) with no qualifying children.

In addition, eligibility for individuals without a qualifying child is limited to individuals who are between ages 25 and 64.

Fifteen percent of tax returns, or a little more than 1 in 7 returns overall, claimed the State credit in tax year 2012, with the incidence of the credit widespread across urban, suburban, and rural areas. The two jurisdictions with the highest utilization of the credit, with a little more than 1 in 4 returns claiming the credit, are Baltimore City (population 622,100) and Somerset County (26,500). In addition, compared to the State average, residents are 20% more likely to claim the credit in Prince George's County, Western Maryland, and five of the nine Eastern Shore counties. Residents are less likely to claim the credit in Montgomery, Kent, Talbot, and Queen Anne's counties and Southern and Central Maryland. Even within high-income counties with the lowest percentage of claims, Carroll and Howard counties, the credit is claimed by 1 in 13 tax returns.

Individual Tax Preparers

Chapter 623 of 2008 established the State Board of Individual Tax Preparers. Individuals are required to register with the board before providing individual tax preparation services in the State. Registration is valid for two years; a continuing education requirement must be fulfilled for renewal. To qualify, an individual must be a high school graduate, pay a registration fee, and pass an examination administered by the board. Approximately 4,300 individuals are registered with the board.

An individual licensed by the State Board of Public Accountancy, admitted to practice law in Maryland or another state, employed by government in performance of official duties, enrolled to practice before the Internal Revenue Service under Circular 230, or serving as an employee or assistant to a registered individual tax preparer or other exempt individual is exempted from registration requirements.

State Fiscal Effect: The exact number of individuals that may benefit under the bill is unknown; however, multiplying the percentage of households that qualified for the earned income tax credit in 2012 (15%) by the average annual number of FAFSA form filings (200,000) provides a rough estimate (30,000) of the eligible population in a given year. However, many of these individuals will file online for free at the FAFSA website.

Assuming a grant amount of \$75 per FAFSA form filing and that grants are available to individual tax preparers for 10% of the estimated eligible population, general fund expenditures increase by \$225,000 annually in fiscal 2017 and 2018 for grants made under the program. The program terminates at the end of fiscal 2018.

MHEC must establish the grant program, including a grant application process, the amount of each grant, and verification of the use of each grant. MHEC staff resources are constrained, and the bill requires a one-time \$50,000 programming expense to implement the grant program. Therefore, general fund expenditures increase by \$323,717 in fiscal 2017, which accounts for a 30-day start-up delay. This estimate reflects the cost of hiring one contractual administrator to oversee the grant program. It includes a salary, fringe benefits, one-time start-up costs, and an estimate of grant funding provided under the program.

Contractual Position	1.0
Salary and Fringe Benefits	\$43,752
One-time Programming Expense	50,000
Grant Funding	225,000
Other Operating Expenses	<u>4,965</u>
Total FY 2017 State Expenditures	\$323,717

Future year expenditures reflect a salary with annual increases and employee turnover, the elimination of one-time costs, and the elimination of the grant program at the end of fiscal 2018.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 11, 2016

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