

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 64 (Delegate Haynes)
 Ways and Means

Income Tax Credit - Payment of Tuition at a Community College

This bill creates a tax credit against the State income tax for an individual who pays specified community college tuition and fees. The value of the credit is equal to 100% of the eligible tuition and fees paid, not to exceed the tax liability imposed in the year. Any unused amount of the credit may not be carried forward to any other tax year. In order to qualify, the amount paid must not otherwise be covered by a grant or loan. 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, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$84.8 million in FY 2017 due to credits claimed against the personal income tax. Future-year estimates reflect a 3% annual increase in eligible expenses. General fund expenditures increase by \$81,700 in FY 2017 due to implementation costs at the Comptroller’s Office. Future-year estimates reflect annualization and ongoing operating expenses.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$84.8)	(\$87.3)	(\$89.9)	(\$92.6)	(\$95.4)
GF Expenditure	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	(\$84.8)	(\$87.4)	(\$90.0)	(\$92.7)	(\$95.5)

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 tax credit exists, but individuals who pay community college tuition and fees may qualify for several federal and State tax benefits as described below.

Publication 970 of the Internal Revenue Service outlines the available federal tax benefits for education expenses, including the favorable tax treatment of certain:

- scholarships, grants, and tuition reductions;
- canceled student loans;
- student loan repayment assistance;
- tuition and fees;
- education savings accounts;
- qualified tuition programs;
- early distributions from any type of individual retirement arrangement used for education costs;
- use of savings bonds for education costs;
- employer-provided educational benefits; and
- deductions for work-related education.

Maryland generally conforms to the federal tax treatment of these benefits, except as discussed below.

Tuition and Fee Tax Benefits

An individual who has qualified educational expenses can claim the federal tax credit or deduction that maximizes their tax benefit, subject to eligibility requirements. An individual with qualified community college expenses can claim either the American Opportunity Tax Credit for up to \$2,500 in the tax year or the Lifetime Learning Credit, which provides a credit of up to \$2,000 per return. An individual who does not meet the qualifications of either credit may qualify to instead deduct the 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. A person who pays community college tuition and fees to maintain or improve employment skills may qualify to deduct the costs as a business expense. These deductions and credits are in addition to the tax-advantaged savings accounts such as Coverdell Education Savings Accounts and qualified tuition programs. In general, taxpayers may not receive a double benefit. For example, an individual cannot claim the tuition and fees deduction and either of the tax credits or for any amount of tuition and fees paid by the tax-free distribution from a

Coverdell Education Savings Account. Expenses paid by an educational loan, however, can qualify for the tax benefits.

The Budget Reconciliation and Financing Act of 2002 decoupled the State income tax from the federal qualified tuition and fees deduction. 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.

State Revenues: Tax credits may be claimed beginning in tax year 2016. As a result, general fund revenues will decrease by \$84.8 million in fiscal 2017. This estimate is based on the following facts and assumptions:

- according to the Maryland Higher Education Commission, in fiscal 2014 Maryland residents paid a total of \$443.0 million in tuition and fees to a Maryland community college;
- of the amount paid by Maryland residents, \$114.8 million was not paid by a loan or grant;
- according to the Comptroller’s Office, in tax year 2012 about one-third of all resident tax returns that reported community college educational expenses did not have any tax liability;
- about 3% of the community college expenses reported by resident taxpayers in 2012 was paid to an out-of-State community college;
- revenue losses from nonresidents are minimal; and
- eligible tuition and fee amounts increase by 3% annually.

State Expenditures: The Comptroller’s Office advises that it will incur additional costs beginning in fiscal 2017 as a result of hiring one revenue examiner and incurring programming expenses. As a result, general fund expenditures increase by \$81,700 in fiscal 2017, which reflects a January 1, 2017 hiring date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$26,067
Operating Expenses	4,664
Programming Expenditures	<u>50,938</u>
Total FY 2017 Expenditures	\$81,669

Future-year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Higher Education Commission,
Department of Legislative Services

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