

Department of Legislative Services  
 Maryland General Assembly  
 2017 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 900 (Delegate Haynes, *et al.*)  
 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, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$87.3 million in FY 2018 due to credits claimed against the personal income tax. Future year revenue estimates reflect a 2% annual increase in eligible expenses. General fund expenditures increase by \$91,200 in FY 2018 due to implementation costs at the Comptroller’s Office. Future year expenditure estimates reflect annualization and ongoing operating expenses.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$87.3)	(\$89.5)	(\$91.3)	(\$93.1)	(\$95.0)
GF Expenditure	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	(\$87.4)	(\$89.5)	(\$91.3)	(\$93.2)	(\$95.0)

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

**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 a 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.

Chapters 689 and 690 of 2016 established a refundable tax credit of up to \$5,000 for qualified undergraduate student loan debt. Beginning in tax year 2017, individuals who have incurred \$20,000 or more in undergraduate student loan debt and have at least \$5,000 in outstanding undergraduate debt qualify for the credit, subject to specified conditions. The Maryland Higher Education Commission may approve up to \$5 million in credits annually. A taxpayer who claims the student loan debt tax credit may also claim the tax credit proposed by the bill.

**State Revenues:** Tax credits may be claimed beginning in tax year 2017. As a result, general fund revenues will decrease by \$87.3 million in fiscal 2018. 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, about one-third of all resident tax returns that reported community college educational expenses in tax year 2012 did not have any tax liability;
- about 3% of the community college expenses reported by resident taxpayers in 2012 were paid to an out-of-State community college;
- revenue losses from nonresidents are minimal; and
- eligible tuition and fee amounts increase by about 2% annually.

**State Expenditures:** The Comptroller's Office advises that it will incur additional costs beginning in fiscal 2018 as a result of hiring one revenue examiner and incurring programming expenses. As a result, general fund expenditures increase by \$91,200 in fiscal 2018, which reflects a January 1, 2018 hiring date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$33,290
Operating Expenses	4,953
Programming Expenditures	<u>53,000</u>
<b>Total FY 2018 Expenditures</b>	<b>\$91,243</b>

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

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### Additional Information

**Prior Introductions:** HB 64 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 5, 2017  
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