

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1268

(Delegate Hixson, *et al.*)

Ways and Means

Budget and Taxation

**Income Tax Credit – Donations to Endowment Funds – Community Foundations
 and Historically Black Colleges and Universities**

This bill expands the existing Endow Maryland tax credit by increasing from \$250,000 to \$500,000 the aggregate amount of credits that the Department of Housing and Community Development (DHCD) can approve in each tax year. The bill also creates a tax credit against the State income tax for 25% of a donation made to a qualified permanent endowment fund at Bowie State University, Coppin State University, Morgan State University, or University of Maryland Eastern Shore. **The bill takes effect July 1, 2018, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$476,800 annually beginning in FY 2020 as a result of additional tax credits being claimed against the corporate and personal income tax. Transportation Trust Fund (TTF) revenues decrease by \$6,700 annually and Higher Education Investment Fund (HEIF) revenues decrease by \$2,800 annually beginning in FY 2020. General fund expenditures increase by \$121,800 in FY 2019 due to implementation costs at the Comptroller’s Office. Future years reflect ongoing expenditures.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	\$0	(\$476,800)	(\$476,800)	(\$476,800)	(\$476,800)
SF Revenue	\$0	(\$9,500)	(\$9,500)	(\$9,500)	(\$9,500)
GF Expenditure	\$121,800	\$64,400	\$66,300	\$68,700	\$71,200
Net Effect	(\$121,800)	(\$550,700)	(\$552,600)	(\$555,000)	(\$557,500)

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

Local Effect: Local highway user revenues decrease by \$600 annually beginning in FY 2020 as a result of credits claimed against the corporate income tax. Local income tax

revenues increase by about \$6,200 annually beginning in FY 2020 due to the requirement that taxpayers add back any amount of Endow Maryland tax credit claimed. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: In order to qualify for the tax credit for donations made to a qualified permanent endowment fund, the fund must be held in perpetuity by a qualifying institution of higher education and used to benefit the institution or its students. Taxpayers seeking the tax credit must apply to the Comptroller for the qualified donation planned in the tax year; applications are approved on a first-come, first-served basis until the total cap for the tax year is reached. The amount of the tax credit may not exceed the tax liability imposed in the year. Any unused amount of the credit can be carried forward to future tax years until the full amount of the excess is used.

The Comptroller's Office (1) may award a maximum of \$250,000 in tax credits in each year and (2) is required to adopt regulations to implement the tax credit application, approval, and monitoring processes.

Current Law/Background:

Endow Maryland

Chapter 511 of 2014 created a tax credit against the State income tax for donations made by individuals or businesses to a qualified permanent endowment fund at an eligible community foundation. The value of the credit is equal to the lesser of 25% of the eligible donation or \$50,000. DHCD is required to administer the credit and may award a maximum of \$250,000 in credits in each tax year.

A taxpayer claiming the credit is required to add back the amount of the credit claimed to Maryland adjusted gross income or Maryland modified income under certain circumstances. Any unused amount of the credit may be carried forward for five taxable years. Taxpayers seeking the tax credit must apply to DHCD for the qualified donations planned in the tax year; applications are approved on a first-come, first-served basis until the total cap for the tax year is reached. DHCD is required to reserve at least 10% of all credits for donations of \$30,000 or less.

An eligible community foundation is an organization that (1) is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code; (2) is commonly known as a community trust, fund, endowment, or foundation that conveys the concept of a capital or endowment fund to support charitable activities in the community or area that it serves; (3) satisfies the public support test under Section 170(b)(1)(a)(vi) of the Internal Revenue Code; and (4) is in compliance with national standards established through the Council on Foundations.

State Revenues: Beginning with tax year 2019, the bill (1) expands the Endow Maryland tax credit by increasing to \$500,000 the aggregate amount of credits that can be approved in each calendar year and (2) creates an income tax credit for donations made to a qualified permanent endowment fund. As a result, general fund revenues will decrease by \$476,800 in fiscal 2020. TTF revenues will decrease by \$6,700 and HEIF revenues will decrease by \$2,800 in fiscal 2020. **Exhibit 1** shows the estimated State and local revenue impacts of the bill.

Exhibit 1
Projected Impact on State and Local Revenues
Fiscal 2019-2023

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Total State Revenue	\$0	(\$486,300)	(\$486,300)	(\$486,300)	(\$486,300)
General Fund	0	(476,800)	(476,800)	(476,800)	(476,800)
HEIF	0	(2,800)	(2,800)	(2,800)	(2,800)
TTF	0	(6,700)	(6,700)	(6,700)	(6,700)
<i>State</i>	<i>0</i>	<i>(6,100)</i>	<i>(6,100)</i>	<i>(6,100)</i>	<i>(6,100)</i>
<i>Local</i>	<i>0</i>	<i>(600)</i>	<i>(600)</i>	<i>(600)</i>	<i>(600)</i>
Local Income Tax Revenues	\$0	\$6,200	\$6,200	\$6,200	\$6,200

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

State Expenditures: The Comptroller's Office advises that it will incur additional costs beginning in fiscal 2019 as a result of hiring one revenue examiner and incurring programming expenses. General fund expenditures will increase by an estimated \$121,800 in fiscal 2019, which reflects the bill's July 1, 2018 effective date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salaries and Fringe Benefits	\$63,283
Operating Expenses	5,515
Programming Expenditures	53,000
Total FY 2019 Expenditures	\$121,798

Future year expenditures reflect annual increases and employee turnover as well as ongoing operating expenses.

Local Revenues: Local highway user revenues will decrease by about \$600 annually beginning in fiscal 2020 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1. Local income tax revenues will increase by about \$6,200 annually beginning in fiscal 2020 due to the requirement that taxpayers add back any amount of Endow Maryland tax credit claimed.

Additional Information

Prior Introductions: None.

Cross File: SB 970 (Senator Manno, *et al.*) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2018
mm/hlb Third Reader - March 22, 2018
Revised - Amendment(s) - March 22, 2018

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510