

Department of Legislative Services  
 Maryland General Assembly  
 2019 Session

FISCAL AND POLICY NOTE  
 Enrolled - Revised

Senate Bill 870

(Senator King, *et al.*)

Budget and Taxation

Ways and Means

**Income Tax - Child and Dependent Care Tax Credit - Alterations**

This bill expands the existing child and dependent care tax credit by (1) increasing the current phase-out that reduces or eliminates the benefit for an individual whose income exceeds specified amounts and (2) making the credit refundable for taxpayers with federal adjusted gross income of \$50,000 or less (\$75,000 if married filing jointly). Beginning in tax year 2020, the applicable income phase-outs are indexed based on the annual change in the cost of living. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$10.9 million in FY 2020 due to additional tax credit claims. Future years reflect projected increase in eligible taxpayers and the annual increase in the cost-of-living index. Expenditures are not affected.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$10.9)	(\$11.3)	(\$11.6)	(\$11.9)	(\$12.3)
Expenditure	0	0	0	0	0
Net Effect	(\$10.9)	(\$11.3)	(\$11.6)	(\$11.9)	(\$12.3)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

### Bill Summary/Current Law:

#### *State Child and Dependent Care Tax Benefits*

Taxpayers can claim a nonrefundable credit against the State income tax for qualified child and dependent care expenses. The credit is available to individuals who qualify for the federal child and dependent care credit and whose federal adjusted gross income (FAGI) is \$50,000 or less (\$25,000 if married and filing separately). The full credit is available to those with a FAGI of \$41,000 or less (\$20,500 or less if married and filing separately) and phases out for incomes between \$41,000 and \$50,000 (\$20,500 and \$25,000 if married and filing separate returns).

The maximum credit allowed for child and dependent care expenses is up to 32.5% of the federal child and dependent care credit claimed by the individual for that taxable year but cannot exceed the State income tax for the taxable year. The maximum value of the credit is \$341 for care provided to one qualifying dependent (\$683 for two or more dependents).

In tax year 2016, a total of 46,200 taxpayers claimed a total of \$8.0 million in State credits. However, since the tax credit is nonrefundable only 23,600 of these taxpayers had sufficient tax liability to claim a total of \$3.5 million.

The bill specifies that the value of the tax credit is equal to 32% of the federal tax credit claimed for an individual whose FAGI is \$30,000 or less (\$50,000 if married filing jointly). For individuals, the value of the credit is reduced by one percentage point for each \$2,000 or fraction of FAGI in excess of \$30,000. For married filing jointly, the value of the credit is reduced by one percentage point for each \$3,000 or fraction of FAGI in excess of \$50,000. The credit is completely phased out for individuals whose FAGI exceeds \$92,000 (\$143,000 if married filing jointly). **Exhibit 1** shows the credit percentage and phase-out of the tax credit under current law. **Exhibit 2** shows the average credit percentage as proposed by the bill.

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**Exhibit 1**  
**Child and Dependent Care Tax Credit**  
**Eligibility and Phase-out by FAGI**

<u>Credit Value</u>	<u>FAGI<sup>1</sup></u>
Full Credit (32.5%)	\$41,000 or less
Credit Phases Out	\$41,001-\$50,000
Phased Out/No Credit	Greater than \$50,000

FAGI: federal adjusted gross income

<sup>1</sup>Married filing separate amounts are one-half of the amounts shown for individuals.

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**Exhibit 2**  
**Child and Dependent Care Tax Credit**  
**Eligibility and Phase-out by FAGI**

<u>Credit Percentage<sup>1</sup></u>	<u>Individuals<sup>2</sup></u>	<u>Married Filing Jointly</u>
32%	Up to \$30,000	Up to \$50,000
24%	\$30,001-\$60,000	\$50,001-\$90,000
13%	\$60,001-\$75,000	\$90,001-\$125,000
5%	\$75,001-\$92,000	\$125,001-\$143,000
0%	Over \$92,000	Over \$143,000

FAGI: federal adjusted gross income

<sup>1</sup>Credit percentage reflects approximate average credit value for FAGI class.

<sup>2</sup>Includes individuals, married filing separately, head of households, and surviving spouses.

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In addition to the State tax credit, individuals may also claim a State subtraction modification for child and dependent care expenses. Taxpayers can deduct up to \$3,000 (\$6,000 if two or more dependents receive care) of the expenses that qualify for the federal child and dependent care tax credit. In tax year 2014, approximately 179,000 resident taxpayers deducted a total of \$536 million in eligible expenses, thereby reducing State revenues by up to \$25 million and local revenues by approximately \$16 million.

### *Federal Child and Dependent Care Tax Credit*

The federal child and dependent care tax credit can be claimed by taxpayers who have earned income and have child and dependent care expenses for qualifying persons if the expenses are incurred to work or look for employment. A qualifying person is a child younger than age 13 who can be claimed as a dependent, a spouse who is incapable of self-care and lived with the taxpayer for more than one-half of the year, or other persons who are not able to care for one's self and meet specified criteria. The amount of expenses eligible for the credit is \$3,000 for the first qualifying person and \$6,000 for two or more qualifying persons and may not exceed the taxpayer's earned income. Certain limits apply if the taxpayer deducted dependent care benefits or are otherwise reimbursed. The taxpayer must have a filing status of single, married filing jointly, head of household, or surviving spouse.

The maximum value of the credit is 35% of qualifying expenses subject to a maximum of \$1,050 for one qualifying person and \$2,100 for two or more qualifying persons. The credit decreases by 1% for each \$2,000 of gross income over \$15,000 until adjusted gross income reaches \$43,000. The credit is 20% for gross incomes of \$43,000 and above. In tax year 2017 an estimated 170,200 Maryland taxpayers claimed a total of \$102.1 million in federal child and dependent care tax credits.

**State Revenues:** Additional tax credits can be claimed beginning in tax year 2019. As a result, general fund revenues will decrease by \$10.9 million in fiscal 2020. Future years reflect projected increases in eligible taxpayers and the annual increase in the cost-of-living index. **Exhibit 3** shows the projected State revenue loss resulting from the bill.

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**Exhibit 3**  
**Projected State Revenue Impact**  
**(\$ in Millions)**

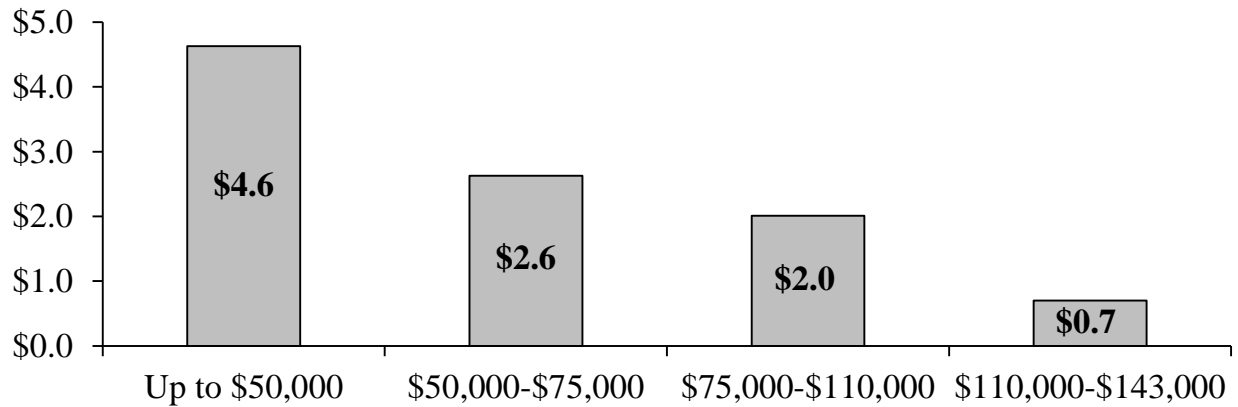
<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
(\$10.9)	(\$11.3)	(\$11.6)	(\$11.9)	(\$12.3)

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In tax year 2017, an estimated 22,700 taxpayers had sufficient tax liability to claim a total of \$3.4 million credits. Under the bill, an estimated 111,000 taxpayers would have qualified for the new tax credit and claimed a total of \$13.4 million in credits, an increase of \$10.0 million. **Exhibit 4** shows the estimated total additional tax credits that would have been claimed by FAGI.

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**Exhibit 4**  
**Additional Tax Credit Claims by FAGI**  
**Tax Year 2017**  
**(\$ in Millions)**



FAGI: federal adjusted gross income

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 810 (Delegate Kelly, *et al.*) - Ways and Means.

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

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