

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 421
 Ways and Means

(Delegate Rosenberg)

Budget and Taxation

Income Tax Distribution – Tax Clinics for Low–Income Marylanders

This bill establishes a special fund and related processes to provide supplemental grant funding for the University of Maryland School of Law, the University of Baltimore School of Law, and the Maryland Volunteer Lawyers Service (MVLS) to operate tax clinics for low-income State residents. For fiscal 2022, \$100,000 of income tax revenue must be distributed to the special fund. Each fiscal year, the Governor must include an appropriation for the fund in the annual budget bill. Funds must then be distributed to the two law schools (40% each) and MVLS (20%). **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund revenues decrease by \$100,000 in FY 2022 due to the one-time distribution of income tax revenues to initially capitalize the new special fund; general fund expenditures increase by an estimated \$100,000 annually beginning in FY 2023 to continue capitalizing it. Special fund revenues and expenditures increase correspondingly as funds are received and distributed for the tax clinics. Higher education revenues and expenditures increase by \$80,000 annually as a portion of the funds are received and used by the law schools. **This bill establishes a mandated distribution for FY 2022 only.**

(in dollars)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$100,000)	\$0	\$0	\$0	\$0
SF Revenue	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Higher Ed Rev.	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
GF Expenditure	\$0	\$100,000	\$100,000	\$100,000	\$100,000
SF Expenditure	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Higher Ed Exp.	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
Net Effect	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)

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: The Tax Clinics for Low-Income Marylanders Fund (TCLIM) is established as a special, nonlapsing fund to be administered by the Comptroller. The purpose of the fund is to provide grants to the University of Maryland School of Law, the University of Baltimore School of Law, and MVLS to operate tax clinics for low-income Maryland residents. Money expended from the fund for this purpose is supplemental and is not intended to take the place of funding that otherwise would be appropriated for tax clinics. Expenditures from the fund may be made only in accordance with the State budget. TCLIM consists of revenue distributed to it under the bill as well as any money appropriated in the State budget or from any other source.

After making certain required distributions, the Comptroller must distribute the remaining income tax revenue from individuals to the general fund. For fiscal 2022 only, the bill adds another distribution before the remaining revenue is distributed to the general fund.

State Fiscal Effect: Under the bill, in fiscal 2022 only, \$100,000 in income tax revenues collected by the Comptroller must be diverted to TCLIM to initially capitalize it. Accordingly, general fund revenues decrease by \$100,000 in fiscal 2022 only. The Comptroller advises that the required distribution can be made with existing budgeted resources. The Governor must include an appropriation for TCLIM in the annual budget bill. Since an amount is not specified, no funding is mandated. However, this analysis assumes that annual funding for TCLIM is maintained at \$100,000. Thus, general fund expenditures increase by \$100,000 annually beginning in fiscal 2023 to continue to capitalize TCLIM. Special fund revenues and expenditures for TCLIM increase correspondingly as funds are received and then distributed to the two law schools and MVLS. The Comptroller can also administer the fund using existing resources.

Higher education revenues and expenditures for the two law schools increase by an estimated \$80,000 annually (\$40,000 each) beginning in fiscal 2022 from distributions made by TCLIM and to provide supplemental funding for existing tax clinics offered by the schools. Actual revenues depend on the annual funding appropriated to MVLS. The schools advise that they intend to use the funds to provide services for *State* tax returns, which existing federal funds do not allow. Use of the funds may include the hiring of full-time staff at one or both institutions but not necessarily so.

Additional Comments: Both the University of Maryland and the University of Baltimore schools of law operate low-income tax clinics funded by grants from the Internal Revenue Service (IRS). MVLS is a nonprofit provider of *pro bono* legal services in the State and offers a variety of legal services, including a low-income taxpayer clinic that assists with IRS tax issues. The clinics do not help prepare taxes, rather they assist individuals in dispute with the IRS. The clinics generally focus on issues related to federal, not State, taxes.

The IRS awards matching grants of up to \$100,000 per year to qualifying organizations to develop, expand, or maintain a low-income taxpayer clinic. Such a clinic must provide services for free or for no more than a nominal fee. At least 90% of the taxpayers the clinic represents must be low income, meaning households below 250% of the federal poverty guidelines. In addition, when a clinic represents a taxpayer, the dollar amount in controversy for any tax year generally must not exceed \$50,000.

Additional Information

Prior Introductions: HB 454 of 2020, a similar bill, passed the House with amendments and was referred to the Senate Budget and Taxation Committee, but no further action was taken.

Designated Cross File: SB 480 (Senator Zucker) - Budget and Taxation.

Information Source(s): Comptroller's Office; Judiciary (Administrative Office of the Courts); Maryland Higher Education Commission; University System of Maryland; Department of Legislative Services

Fiscal Note History: First Reader - January 26, 2021
rh/rhh Third Reader - March 25, 2021
Revised - Amendment(s) - March 25, 2021
Revised - Clarification - March 25, 2021

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