

Department of Legislative Services  
2021 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1161  
Ways and Means

(Delegate Thiam)

**Income Tax - Subtraction Modification - School Supplies**

This bill creates a subtraction modification against the State income tax for up to \$250 of the school supplies purchased by a parent or guardian for use by a K-12 student. School supplies include (1) computer equipment, software, and services; (2) material used for a virtual learning environment; and (3) athletic supplies purchased for health or physical education classes. **The bill takes effect July 1, 2021, and applies to tax years 2020 and 2021. The bill terminates June 30, 2022.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$7.7 million in FY 2022 due to subtraction modifications claimed against the State income tax. General fund expenditures increase by \$60,000 in FY 2022 and FY 2023 due to computer programming expenses at the Comptroller’s Office.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$7.7)	\$0	\$0	\$0	\$0
GF Expenditure	\$0.1	\$0.1	\$0	\$0	\$0
Net Effect	(\$7.7)	(\$0.1)	\$0.0	\$0.0	\$0.0

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

**Local Effect:** Local income tax revenues decrease by \$5.0 million in FY 2022. Local expenditures are not affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** No similar State income tax subtraction modification exists.

**State Revenues:** Subtraction modifications may be claimed in tax years 2020 and 2021. As a result, State revenues may decrease by \$7.7 million in fiscal 2022.

This estimate is based on the following facts and assumptions:

- based on U.S. Census Bureau data, an estimated 575,000 Maryland households have a child of K-12 age;
- about three-quarters of these households qualify for and claim the subtraction modification on a taxable return; and
- given the July 1, 2021 effective date of the bill about one-half of all tax year 2020 eligible taxpayers claim the subtraction modification in fiscal 2022.

To the extent fewer eligible households claim the subtraction modification, revenue losses will be less than estimated.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$60,000 in fiscal 2022 and 2023 to add and remove the subtraction modification to the personal income tax return. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

**Local Revenues:** Local income tax revenues decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues decrease by \$5.0 million in fiscal 2022.

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## Additional Information

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland State Department of Education; U.S. Census Bureau; Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 2021  
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