

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 32
 Ways and Means

(Delegate Harrison)

Income Tax - Caregiver Tax Credit

This bill establishes a nonrefundable credit against the State income tax for qualified expenses paid or incurred by an individual who provides care to a qualified adult family member and whose federal adjusted gross income does not exceed \$75,000 (\$150,000 if filing a joint return). An eligible caregiver may claim a credit equal to 30% of the amount of qualified expenses that exceed \$2,000, up to a maximum credit of \$5,000. Any unused amount of credit may not be carried forward to any other taxable year. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease significantly, potentially by more than \$25 million annually, beginning in FY 2025, as discussed below. General fund expenditures increase by approximately \$110,900 in FY 2025; future years reflect annualization and ongoing costs.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$110,900	\$127,600	\$133,300	\$139,200	\$145,300
Net Effect	(-)	(-)	(-)	(-)	(-)

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: “Qualified expenses” means expenses paid or incurred by a caregiver for goods or services that relate directly to the care or support of a qualified family member. Qualified expenses include, for example, adult day care, specialized transportation, legal or financial services, or assistive care technology, among other things. A “qualified family member” is an individual who (1) is at least 18 years old on the last day of the taxable year in which the qualified expenses were paid or incurred; (2) requires assistance with one or more daily living activities, as certified by a licensed physician, physician assistant, or registered nurse practitioner; and (3) is an immediate family member of the caregiver.

Current Law: State law does not provide for a tax credit for caregivers of adult family members, specifically. However, the State does offer a child and dependent care credit for taxpayers who claim the federal child and dependent care credit and meet specified eligibility requirements. A taxpayer may be eligible to claim the federal credit if the taxpayer paid expenses for the care of one or more qualifying individuals during the taxable year and the expenses were incurred to enable the taxpayer to work or look for employment. A qualifying individual may include a spouse, dependent, or other specified individual who is physically or mentally incapable of self-care and lived with the taxpayer for more than half of the year.

State Revenues: General fund revenues decrease significantly beginning in fiscal 2025 due to credits claimed against the State income tax. Assuming at least 50% of eligible taxpayers with qualifying expenses claim the credit, the Department of Legislative Services (DLS) estimates that annual general fund revenue losses may exceed \$25 million annually based on an analysis of national caregiving statistics jointly published by the National Alliance for Caregiving and American Association of Retired Persons (AARP) as well as caregiving out-of-pocket costs statistics published by AARP.

However, DLS advises that there is considerable uncertainty regarding the number of taxpayers who will be eligible for and ultimately claim the credit and their average creditable expenses. Thus, the bill’s precise impact on general fund revenues cannot be reliably estimated.

State Expenditures: The Comptroller’s Office advises that two additional full-time revenue examiners are needed in order to review and verify tax credit claims under the bill. Thus, general fund expenditures increase by \$110,943 in fiscal 2025, which reflects a 90-day start-up delay from the bill’s July 1, 2024 effective date. This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$96,431
Other Operating Expenses	<u>14,512</u>
Total FY 2025 State Expenditures	\$110,943

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. The Comptroller’s Office can absorb any updates to the Comptroller’s tax systems within annual tax season changes.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 344 of 2023 and SB 660 of 2022.

Designated Cross File: None.

Information Source(s): Comptroller’s Office; Internal Revenue Service; American Association of Retired Persons; National Alliance for Caregiving; Moody’s Analytics; Department of Legislative Services

Fiscal Note History: First Reader - January 17, 2024
km/jrb

Analysis by: Elizabeth J. Allison

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