



Brooke E. Lierman
Comptroller

Testimony of Debora Gorman, Director, Legal Division

Support - 2023 Senate Bill 243, Income Tax – Child and Dependent Care Tax Credit - Alterations

*Hearing: Wednesday, February 1, 2023
Budget and Taxation*

Chairman Guzzone, Vice Chairman Rosapepe and members of the Committee, it is my pleasure to provide testimony in **support** of Senate Bill 243 – Income Tax – Child and Dependent Care Tax Credit - Alterations. I would like to thank Chairman Guzzone for sponsoring this bill.

This bill amends the Child and Dependent Care Tax Credit in TG § 13-716 to restrict it to Maryland residents only.

As currently written, the Maryland Child and Dependent Care Credit is available to individual and married filers earning no more than \$92,000 or \$143,000, respectively. The credit is the lesser of 32% of the federal child and dependent care credit or the State income tax. If the credit exceeds the State income tax, the excess is refundable if the individual or married couple's federal adjusted gross income does not exceed \$50,000 or \$75,000, respectively. The credit diminishes for each \$3,000 of income in excess of \$50,000. SB870 in the 2019 legislative session altered the eligibility for this credit, but also, notably, made the credit refundable.

Subsequent to those changes, the Comptroller's Office staff identified a scheme where nonresidents with zero Maryland income were filing nonresident returns and claiming a refund of the Child and Dependent Care credit. These nonresidents had \$0 Maryland tax liability, so the entire credit was refundable to these nonresident filers. This appeared to be an unintended result of the statutory language.

This bill closes the loophole to allow only Maryland residents to claim the credit. Closing this loophole will prevent money going to nonresidents with no ties to the State.

For these reasons, the Comptroller requests a favorable report on this bill.

As always, the Comptroller's Office is willing and available to answer any questions you may have at your convenience. Please contact Justin Hayes, Director of State Affairs at jhayes@marylandtaxes.gov or 410-260-7696.