

**Letter of Information – Senate Bill 324 – Income Tax – Credit for Student Bus
Transportation Expenses**
Budget and Tax Committee
February 8, 2023

Senate Bill 324 provides a refundable credit for expenses paid to a school or school system for the daily bus transportation of a school student to or from a school. The school to which the expenses were paid must participate in the Nonpublic Schools Textbook and Technology Grants Program for the bus expenses to qualify for the credit. The refundable credit may not exceed \$1,500.

The Comptroller has concerns about validating the credit to ensure the amount is only given to taxpayers who qualify. The amount and refundability of the credit suggest this credit would be susceptible to fraud. To prevent fraudulent claims for the credit, the Comptroller would validate the credit either upon receipt of the return claiming the credit, or on audit after the credit has been granted.

Front-end validation of any attachment to the return requires manual review. Manual review delays the processing of the subject return and draws resources from other processing functions. Review only upon audit puts the Comptroller in the position of clawing back up to \$1,500 from a taxpayer up to 3 years after the return was filed.

Further, proving the expense was incurred may be difficult, even for those taxpayers legitimately claiming it. The qualified bus transportation expense must be paid “to a school or school system.” The expense may be included as part of tuition and difficult to identify if not stated as a separate line item. The expense may also be paid directly to the bus transportation provider, in which case it would not qualify for the credit.

In administering other credits, the Comptroller often receives a list of taxpayers qualifying for the credit from the agency administering the credit. The Comptroller then cross-checks the returns claiming the credit against the list. In this case, it may not be practicable to have each qualifying school submit a list of students and bus expenses to the Comptroller.

As always, the Comptroller’s Office is willing and available to discuss these concerns or any questions you may have at your convenience. Please contact Justin Hayes, Legislative Director at jhayes@marylandtaxes.gov or 410-260-7696.

