**HB 810**

# Department of Legislative Services

Maryland General Assembly
2019 Session

## FISCAL AND POLICY NOTE
## First Reader

House Bill 810 (Delegate Kelly, *et al.*)
Ways and Means

**Income Tax - Child and Dependent Care Tax Credit - Alterations**

This bill expands the existing child and dependent care tax credit primarily by (1) increasing the current phase-out that reduces or eliminates the benefit for an individual whose income exceeds specified amounts and (2) making the credit refundable for taxpayers with federal adjusted gross income of $50,000 or less ($75,000 if married filing jointly). Beginning in tax year 2020, the applicable income phase-outs are indexed based on the annual change in the cost of living. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

## Fiscal Summary

**State Effect:** General fund revenues decrease by $17.5 million in FY 2020 due to additional tax credit claims. Future years reflect projected increase in eligible taxpayers and the annual increase in the cost-of-living index. Expenditures are not affected.

| ($ in millions) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|---|---|---|---|---|---|
| GF Revenue | ($17.5) | ($18.2) | ($18.8) | ($19.4) | ($20.0) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | ($17.5) | ($18.2) | ($18.8) | ($19.4) | ($20.0) |

*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:**

*State Child and Dependent Care Tax Benefits*

Taxpayers can claim a nonrefundable credit against the State income tax for qualified child and dependent care expenses. The credit is available to individuals who qualify for the federal child and dependent care credit and whose federal adjusted gross income (FAGI) is $50,000 or less ($25,000 if married and filing separately). The full credit is available to those with a FAGI of $41,000 or less ($20,500 or less if married and filing separately) and phases out for incomes between $41,000 and $50,000 ($20,500 and $25,000 if married and filing separate returns).

The maximum credit allowed for child and dependent care expenses is up to 32.5% of the federal child and dependent care credit claimed by the individual for that taxable year but cannot exceed the State income tax for the taxable year. The maximum value of the credit is $341 for care provided to one qualifying dependent ($683 for two or more dependents).

In tax year 2016, a total of 46,200 taxpayers claimed a total of $8.0 million in State credits. However, since the tax credit is nonrefundable only 23,600 of these taxpayers had sufficient tax liability to claim a total of $3.5 million.

**Exhibit 1** shows the credit percentage and phase-out of the tax credit under current law and **Exhibit 2** as proposed by the bill.

**Exhibit 1**
**Child and Dependent Care Tax Credit**
**Eligibility and Phase-out by FAGI**

| Credit Value | FAGI[1] |
|---|---|
| Full Credit (32.5%) | $41,000 or less |
| Credit Phases Out | $41,001-$50,000 |
| Phased Out/No Credit | Greater than $50,000 |

FAGI: federal adjusted gross income
[1]Married filing separate amounts are one-half of the amounts shown for individuals.

**Exhibit 2**
**Child and Dependent Care Tax Credit**
**Eligibility and Phase-out by FAGI**

| Credit Percentage | Individuals[1] | Married Filing Jointly |
|---|---|---|
| 35% | Up to $50,000 | Up to $75,000 |
| 30% | $50,001-$75,000 | $75,001-$110,000 |
| 20% | $75,001-$91,000 | $110,001-$125,000 |
| 10% | $91,001-$110,000 | $125,001-$141,000 |
| 0% | Over $110,000 | Over $141,000 |

[1]Includes individuals, married filing separately, head of households, and surviving spouses

In addition to the State tax credit, individuals may also claim a State subtraction modification for child and dependent care expenses. Taxpayers can deduct up to $3,000 ($6,000 if two or more dependents receive care) of the expenses that qualify for the federal child and dependent care tax credit. In tax year 2014, approximately 179,000 resident taxpayers deducted a total of $536 million in eligible expenses, thereby reducing State revenues by up to $25 million and local revenues by approximately $16 million.

*Federal Child and Dependent Care Tax Credit*

The federal child and dependent care tax credit can be claimed by taxpayers who have earned income and have child and dependent care expenses for qualifying persons if the expenses are incurred to work or look for employment. A qualifying person is a child younger than age 13 who can be claimed as a dependent, a spouse who is incapable of self-care and lived with the taxpayer for more than one-half of the year, or other persons who are not able to care for one's self and meet specified criteria. The amount of expenses eligible for the credit is $3,000 for the first qualifying person and $6,000 for two or more qualifying persons and may not exceed the taxpayer's earned income. Certain limits apply if the taxpayer deducted dependent care benefits or are otherwise reimbursed. The taxpayer must have a filing status of single, married filing jointly, head of household, or surviving spouse.

The maximum value of the credit is 35% of qualifying expenses subject to a maximum of $1,050 for one qualifying person and $2,100 for two or more qualifying persons. The credit decreases by 1% for each $2,000 of gross income over $15,000 until adjusted gross income reaches $43,000. The credit is 20% for gross incomes of $43,000 and above. In tax year 2017 an estimated 170,200 Maryland taxpayers claimed a total of $102.1 million in federal child and dependent care tax credits.

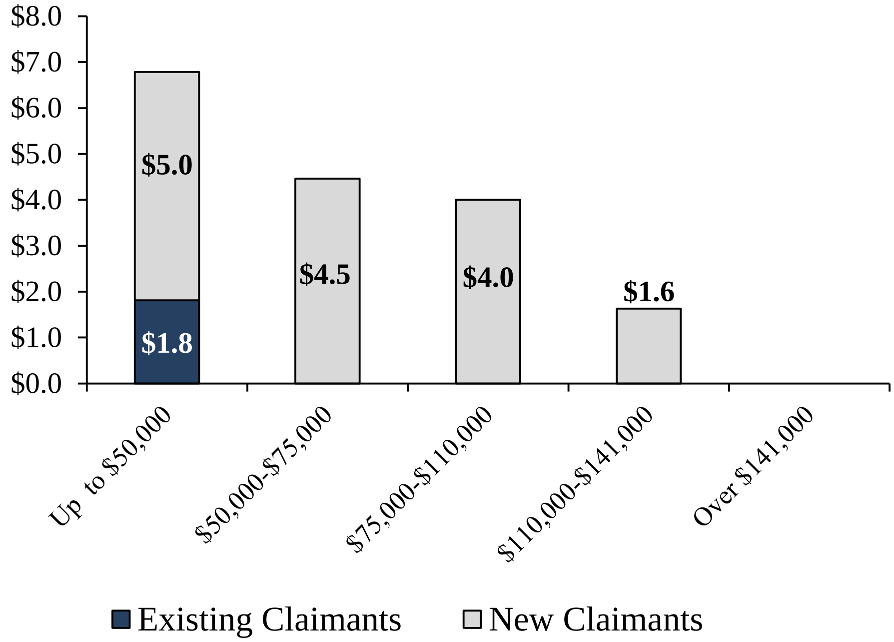
**State Revenues:** Additional tax credits can be claimed beginning in tax year 2019. As a result, general fund revenues will decrease by $17.5 million in fiscal 2020. Future years reflect projected increases in eligible taxpayers and the annual increase in the cost-of-living index. **Exhibit 3** shows the projected State revenue loss resulting from the bill.

**Exhibit 3**
**Projected State Revenue Impact**
**($ in Millions)**

| FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|---|---|---|---|---|
| ($17.5) | ($18.2) | ($18.8) | ($19.4) | ($20.0) |

In tax year 2017, an estimated 22,700 taxpayers had sufficient tax liability to claim a total of $3.4 million credits. Under the bill, an estimated 114,200 taxpayers would have claimed an additional $16.9 million in tax credits. An estimated 22,700 taxpayers who claimed the credit under existing law would have received an additional $1.8 million in credits while 91,500 new claimants would claim $15.1 million. In total, an estimated 55,300 taxpayers would have claimed a total of $11.7 million in refundable tax credits. **Exhibit 4** shows the estimated total additional tax credits that would have been claimed by FAGI.

**Exhibit 4**
**Additional Tax Credit Claims by FAGI**
**Tax Year 2017**
**($ in Millions)**




## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 870 (Senator King, *et al.*) - Budget and Taxation.

**Information Source(s):** Comptroller's Office; Department of Legislative Services

**Fiscal Note History:** First Reader - February 26, 2019
mag/hlb

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