

Department of Legislative Services
2013 Session

FISCAL AND POLICY NOTE

House Bill 85 (Delegate B. Robinson)
Ways and Means

Income Tax - Subtraction Modification - Segal AmeriCorps Education Award

This bill exempts from the State income tax an award received under the Segal AmeriCorps Education Award Program.

The bill takes effect July 1, 2013, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by about \$93,000 in FY 2015. Future year revenue losses increase by 2% annually. Expenditures are not affected.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	\$0	(\$93,000)	(\$94,900)	(\$96,800)	(\$98,700)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$93,000)	(\$94,900)	(\$96,800)	(\$98,700)

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

Local Effect: Local income tax revenues decrease by \$58,700 in FY 2015 and by \$62,300 in FY 2018. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: State law generally conforms to the federal tax treatment of education benefits except as discussed below. Qualified tuition reductions, academic awards, scholarships, and fellowships are taxable under the federal income tax unless certain conditions are satisfied. In general, amounts received by degree-seeking students that are spent on qualifying expenses (tuition, fees, books, and supplies) are exempt from

taxation. However, any scholarship, fellowship, or tuition reduction that represents payment for past, present, or future teaching, research, or other services is taxable.

Under federal law, an individual may deduct qualified tuition and related expenses incurred during the year. This deduction can be taken whether or not the taxpayer itemizes deductions and has a maximum value of \$4,000. The deduction is available through calendar 2013. The Budget Reconciliation and Financing Act of 2002 decoupled the State income tax from the federal provision. The benefit is not allowed for State income tax purposes, so an individual claiming the deduction must add-back the amount of the deduction when determining State income tax liability.

Background: Individuals who successfully complete one or more terms of AmeriCorps service earn a Segal AmeriCorps Education Award that can be used to repay qualified student loans, pay education expenses at a qualified institution of higher education, or repay qualified student loans. An institution is qualified if it has been authorized by the Department of Education to receive other federal student aid, such as Pell grants, Perkins loans, and Stafford loans. Beginning with terms of service that started on or after October 1, 2009, the award may be used to pay expenses incurred in enrolling in an educational institution or training establishment that is approved under the GI Bill. AmeriCorps members generally have seven years from the completion of their service to use their award. Since 1995, over 7,000 awards totaling \$24.5 million have been provided to students attending eligible institutions in Maryland.

AmeriCorps currently advises recipients that an award is subject to federal income tax in the year the payment is made. It is considered taxable income regardless of whether it is used for current educational expenses or to repay a qualified student loan. If a recipient uses the entire amount of the award in one calendar year, the entire amount must be included as income on the recipient's tax return for that year. If a portion of the education award is used in a calendar year, taxes are assessed on that portion.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2014. It is assumed that most taxpayers do not adjust withholdings and estimated payments. As a result, revenues will decrease by \$93,000 in fiscal 2015. This estimate is based on the following assumptions:

- In 2011, 1,174 awards totaling \$2.9 million were made to individuals attending an eligible institution in Maryland.
- An estimated 20% of students attending these schools are nonresidents.
- From 1995 through 2011, individuals have earned \$2.0 billion in awards and have used \$1.4 billion for education expenses.

- In 2002, about 1.7 Maryland residents attended an out-of-state institution of higher education for every nonresident who attended a Maryland institution of higher education.
- Nontaxable returns reduce revenue losses by 15%.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Accordingly, local government revenues decrease by \$58,700 in fiscal 2015, \$59,900 in fiscal 2016, \$61,100 in fiscal 2017, and \$62,300 in fiscal 2018.

Additional Information

Prior Introductions: SB 138 of 2012 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 790, received a hearing in the House Ways and Means Committee but no further action was taken.

Cross File: SB 50 (Senator Young) - Budget and Taxation.

Information Source(s): Americorps, Comptroller's Office, Internal Revenue Service, Department of Legislative Services

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ncs/jrb

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