

Department of Legislative Services
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 526 (Delegate Miller, *et al.*)
Appropriations and Ways and Means

Higher Education - Differential Tuition - Notification and Income Tax
Subtraction Modification

This bill creates a subtraction modification against the State income tax for the portion of differential tuition payments made by an individual that a public institution of higher education uses to provide scholarships or other financial aid to students. A public institution of higher education that charges differential tuition must prominently post on its website information on the differential tuition charged for each applicable course, an itemization of how the institution spends the revenue generated by the tuition, and the availability of the subtraction modification established by the bill. An institution that charges differential tuition must also provide annually to the individual who paid the tuition a statement that provides the amount eligible for the subtraction modification. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$135,000 in FY 2021 due to eligible tuition expenses being claimed against the State income tax. Future year revenue decreases reflect forecasted increases in eligible expenses. General fund expenditures increase by \$56,000 in FY 2021 due to one-time computer programming expenses at the Comptroller’s Office. Higher education expenditures may increase beginning in FY 2021 due to implementation costs.

| (in dollars) | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|----------------|-------------|-------------|-------------|-------------|-------------|
| GF Revenue | (\$135,000) | (\$143,000) | (\$157,000) | (\$169,000) | (\$175,000) |
| GF Expenditure | \$56,000 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$191,000) | (\$143,000) | (\$157,000) | (\$169,000) | (\$175,000) |

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

Local Effect: Local income tax revenues decrease by \$88,000 in FY 2021 and by \$114,000 in FY 2025. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax subtraction modification exists. However, under federal and State law, numerous deductions and tax credits can be claimed for the tuition paid by an individual. In addition, tuition may be paid using tax advantaged accounts including State 529 plans.

[Publication 970](#) of the Internal Revenue Service outlines the available federal tax benefits for education expenses, including the tax treatment of certain:

- scholarships, grants, and tuition reductions;
- canceled student loans;
- student loan repayment assistance;
- tuition and fees;
- education savings accounts;
- qualified tuition programs;
- early distributions from any type of individual retirement arrangement used for education costs;
- use of savings bonds for education costs; and
- employer-provided educational benefits.

Maryland generally conforms to the federal tax treatment of these benefits.

Background: Traditionally, institutions charge all undergraduate students the same tuition rate regardless of program/major or class standing. Differential pricing can be applied to various student attributes including residency, level of study (*i.e.*, undergraduate, graduate, or professional), major, class standing, or type of instruction (*i.e.*, traditional or online).

The University of Maryland, College Park Campus (UMCP) implemented differential tuition in fall 2015 for business, engineering, and computer science majors, as a means of maintaining the quality of these high-demand, high-cost programs. UMCP's differential was phased in between fiscal 2016 and 2019. The differential rate for fiscal 2020 is \$2,856, and the maximum a student will pay is two years of the higher rate. Revenue generated from the differential tuition remains with the respective departments. Most of the revenue (65%) is used to reduce the undergraduate student/faculty ratio and to strengthen research and innovation; one-quarter is used to increase financial aid in those programs; and 10% is targeted at increasing enrollment. In fiscal 2019, UMCP collected a total of \$15.8 million in differential tuition.

In spring 2020, Towson University will become the second University System of Maryland (USM) institution to implement differential tuition. Up to 82% of the revenue will be used

to fund new faculty, staff to support research, and specialized equipment and at least 18% will be used to expand financial aid.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2020. As a result, fiscal 2021 revenues will decrease by \$135,000. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2021-2025

| | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> | <u>FY 2025</u> |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| State | (\$135,000) | (\$143,000) | (\$157,000) | (\$169,000) | (\$175,000) |
| Local | (88,000) | (93,000) | (102,000) | (111,000) | (114,000) |
| Total Revenues | (\$223,000) | (\$236,000) | (\$259,000) | (\$280,000) | (\$289,000) |

This estimate assumes that 70% of eligible differential tuition expenses are deducted on a resident taxable return. To the extent that public institutions of higher education expand the number of courses that charge differential tuition, revenue losses will be higher than estimated.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$56,000 in fiscal 2021 to add the subtraction modification to the personal income tax return. This includes data processing changes to the income tax return processing and imaging systems and system testing.

USM advises that expenditures may increase beginning in fiscal 2021 in order to provide annual statements of the amount of eligible tuition paid.

Local Revenues: Local income tax revenues decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues decrease by \$88,000 in fiscal 2021 and by \$114,000 in fiscal 2025, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; University System of Maryland;
Department of Legislative Services

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