

Department of Legislative Services  
 Maryland General Assembly  
 2022 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 805 (Senator King)  
 Budget and Taxation

Income Tax – Child Tax Credit – Alterations and Sunset Extension

This bill alters the existing State child tax credit beginning in tax year 2022 by (1) increasing to \$15,000 the maximum federal adjusted gross income that a taxpayer can earn to be eligible for the credit; (2) extending eligibility to children under the age of 6 years; and (3) eliminating the requirement that a taxpayer reduce the value of the credit by the amount of the federal child tax credit claimed. The bill also extends the tax credit, as amended by the bill, in tax years 2023 through 2026. **The bill takes effect July 1, 2022, and terminates June 30, 2027.**

Fiscal Summary

**State Effect:** General fund revenues decrease by \$10.9 million in FY 2023 due to additional tax credits claimed against the personal income tax. Future year estimates reflect extension of current law provisions and projected growth in eligible taxpayers. Expenditures are not affected.

| (\$ in millions) | FY 2023  | FY 2024  | FY 2025  | FY 2026  | FY 2027  |
|------------------|----------|----------|----------|----------|----------|
| GF Revenue       | (\$10.9) | (\$12.1) | (\$12.4) | (\$12.6) | (\$12.9) |
| Expenditure      | 0        | 0        | 0        | 0        | 0        |
| Net Effect       | (\$10.9) | (\$12.1) | (\$12.4) | (\$12.6) | (\$12.9) |

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

### Current Law:

#### *Federal Child Tax Credit*

The federal child tax credit, established in 1997, provides partially refundable tax credits for qualifying children and dependents. A dependent under Section 152 of the Internal Revenue Code (IRC) includes a qualifying child or a qualifying relative. A qualifying child is generally under the age of 17 and meets certain conditions including criteria related to support provided, citizenship status, and household membership. A qualifying relative is a specified relative of the taxpayer, including certain children who are not qualifying children, that meets certain conditions including criteria related to support provided, income, and household membership.

#### *State Child Tax Credit*

Chapter 40 of 2021 created a refundable credit against the State income tax equal to \$500 for each dependent child who is a qualified dependent under Section 152 of the IRC and is under the age of 17 and has a disability. In order to qualify, a taxpayer must have federal adjusted gross income of \$6,000 or less. The credit is reduced by the amount of any federal child tax credit claimed for a qualified child in the year. The tax credit can be claimed in tax years 2020 through 2022.

**State Revenues:** The bill alters and extends the State child tax credit. As a result, general fund revenues will decrease by an estimated \$10.9 million in fiscal 2023. **Exhibit 1** shows the projected State revenue loss from the bill.

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### Exhibit 1 State Revenue Impacts (\$ in Millions)

|                       | <u>FY 2023</u> | <u>FY 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> | <u>FY 2027</u> |
|-----------------------|----------------|----------------|----------------|----------------|----------------|
| <b>State Revenues</b> | (\$10.9)       | (\$12.1)       | (\$12.4)       | (\$12.6)       | (\$12.9)       |

Source: Department of Legislative Services

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This estimate is based on the number of Maryland taxpayers who claimed the federal child tax credit in tax year 2019, adjusted for the provisions of the bill.

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## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 919 (Delegate Palakovich Carr) - Ways and Means.

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

**Fiscal Note History:** First Reader - February 22, 2022  
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