

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 218 (Senator King)
Budget and Taxation

Maryland Child Tax Credit

This bill creates a refundable credit against the State income tax equal to \$500 for each child who is a qualified dependent under Section 152 of the Internal Revenue Code and is either under the age of 6 years or is under the age of 17 years and has a disability. In order to qualify, a taxpayer must have a federal adjusted gross income of \$6,000 or less. The credit is reduced by the amount of any federal child tax credit claimed for the child in the year. **The bill takes effect July 1, 2021, and applies to tax years 2021 through 2025. The bill terminates June 30, 2026.**

Fiscal Summary

State Effect: General fund revenues will decrease in FY 2022 through 2026 due to tax credits claimed against the personal income tax. General fund expenditures increase by \$60,000 in FY 2022 due to one-time implementation costs at the Comptroller's Office.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The federal child tax credit, established in 1997, provides partially refundable tax credits for qualifying children and dependents. The federal Tax Cuts and Jobs Act of 2017 enacted significant changes to the credit by (1) altering the eligibility requirements of the credit; (2) increasing the value of the nonrefundable credit from \$1,000 to \$2,000 (the refundable credit increases from \$1,000 to \$1,400); (3) allowing more higher-income taxpayers to claim the credit by increasing the income thresholds at which the credit phases out; and (4) establishing an additional tax credit of \$500 for dependents who are not qualifying children.

A dependent under Section 152 includes a qualifying child or a qualifying relative. A qualifying child is generally under the age of 17 years 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.

The provisions of the Act apply to tax years 2018 through 2025.

State Revenues: Tax credits can be claimed in tax years 2021 through 2025. As a result, general fund revenues will decrease in fiscal 2022 through 2026. Based on the requirements of the bill and the amount of federal child tax credits claimed in tax year 2018, general fund revenues may decrease by \$17.0 million annually in fiscal 2022 through 2026.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$60,000 in fiscal 2022 to add the tax credit to the personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: HB 912 of 2020 received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, SB 638, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Designated Cross File: HB 143 (Delegate Palakovich Carr) - Ways and Means.

Information Source(s): Comptroller's Office; U.S. Census Bureau; Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510