

Department of Legislative Services
2015 Session

FISCAL AND POLICY NOTE

House Bill 619
Ways and Means

(Delegate Haynes, *et al.*)

Income Tax Credit - Flexible Workweek

This bill creates a tax credit against the State income tax for employers who provide flexible workweeks for employees. The amount of the credit may not exceed the lesser of \$100 for each participating employee or \$5,000.

The bill takes effect July 1, 2015, and applies to tax year 2015 and beyond.

Fiscal Summary

State Effect: Significant decrease in general fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues beginning in FY 2016 due to tax credits claimed against the personal and corporate income tax. General fund expenditures increase by \$106,300 in FY 2016 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

Local Effect: Local highway user revenues decrease beginning in FY 2016 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal. Small businesses that offer specified flexible workweeks and meet specified conditions may benefit from claiming the tax credit.

Analysis

Bill Summary: The bill creates a tax credit against the State income tax for an employer who offers a flexible workweek to its employees. If one-third of the full-time employees of the business in the State work a flexible workweek, the business can claim a credit equal to the wages paid for eight hours of work for each participating employee for each week the employee works a flexible workweek. The value of the credit may not exceed the lesser

of \$100 for each participating employee or \$5,000. The credit is nonrefundable, except for specified nonprofit organizations which may receive a refund.

Current Law: No State tax credit of this type exists.

State Revenues: Tax credits may be claimed beginning in tax year 2015. Accordingly, general fund, TTF, and HEIF revenues decrease by a significant amount beginning in fiscal 2016. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of businesses that claim credits, the number of eligible employees at each business, the amount of wages paid to eligible employees, and the amount of credits claimed. **Exhibit 1** shows the annual decrease in State revenues if a certain percentage of Maryland businesses claim the maximum tax credit in each tax year.

Exhibit 1
Potential Annual Revenue Decreases
(\$ in Millions)

<u>Percent of Businesses</u>	<u>Revenue Loss</u>
1%	\$1.0
5%	5.0
10%	10.0

The U.S. Census Bureau estimates that there were 106,613 companies in Maryland in 2011. Based on the number of companies in the State and the employment size of those companies, the Department of Legislative Services estimates the credit could cost \$100 million if every business claimed the credit and had tax liability exceeding the credit. However, not every company files a Maryland income tax return or has tax liability, and not all companies would likely provide a flexible workweek in which one-third of their employees worked a flexible workweek, so the amount of revenue loss cannot be reliably estimated. The Society for Human Resource Management reports that 52% of employers surveyed provide flexible work arrangements, and of those that provide flexible work arrangements, only one-third of organizations say the majority of their employees are allowed to use flexible work arrangements. However, a compressed workweek is the only flexible work arrangement that is eligible for the credit. Several surveys have found that approximately one-third of organizations provide employees with the option of a compressed workweek.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$106,300 in fiscal 2016 to add the tax credit to the personal and

corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Local Revenues: Local highway user revenues decrease beginning in fiscal 2016 as a result of credits claimed against the corporate income tax.

Additional Information

Prior Introductions: Similar bills, HB 1064 of 2013 and HB 1145 of 2012, received hearings in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Society for Human Resource Management; WorldatWork; Department of Legislative Services

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Analysis by: Heather N. Ruby

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