SB 646

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 646 (Senator King, *et al.*)
Budget and Taxation

Income Tax Credit - Eligible Employers - Eligible Internships

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This bill creates a tax credit against the State income tax for a business entity located in the State that employs an eligible intern that would not have been hired without the tax credit. The credit is equal to the lesser of 10% of the wages paid to each eligible intern or $1,000. The Department of Labor, Licensing, and Regulation (DLLR) may approve up to $500,000 in aggregate tax credit certificate applications annually.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $448,500 beginning in FY 2017 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by $36,500 and Higher Education Investment Fund (HEIF) revenues decrease by $15,000 in FY 2017. General fund expenditures increase by $118,100 in FY 2017 due to implementation and administrative costs at DLLR and the Comptroller's Office.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	($448,500)	($448,500)	($448,500)	($448,500)	($448,500)
SF Revenue	($51,500)	($51,500)	($51,500)	($51,500)	($51,500)
GF Expenditure	$118,100	$80,700	$83,800	$87,100	$90,500
Net Effect	($618,100)	($580,700)	($583,800)	($587,100)	($590,500)

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

Local Effect: Local highway user revenues decrease by approximately $3,500 annually beginning in FY 2017 as a result of credits claimed against the corporate income tax.

Small Business Effect: Minimal. Small businesses that employ eligible interns would benefit by claiming up to $1,000 in income tax credits for each eligible intern.

Analysis

Bill Summary: An eligible intern is a student who is enrolled in a public or private nonprofit institution of higher education in the State and meets specified conditions. To claim the credit, the employer must have a written agreement with an eligible institution specifying that the intern (1) will be supervised and evaluated by the employer; (2) is not required to perform the internship for a specific degree program that requires practical experience; and (3) will earn academic credit for completing the internship or, if not earning academic credit, will work in the intern's field of study. An eligible employer may not claim a credit for more than five eligible interns employed in the taxable year.

The eligible employer must submit a tax credit application to DLLR at least 30 days prior to employing an eligible intern, and DLLR must certify the amount of any approved tax credit within 30 days of receipt. Tax credit applications are approved on a first-come, first-served basis. The credit may be carried forward for up to seven taxable years until the credit is exhausted. DLLR must adopt regulations that provide for the administration of the tax credit.

Current Law: No State tax credit of this type exists for employing interns, but the State provided a tax credit program for approved work-based learning programs for students, which abrogated on June 30, 2013. The program allowed approved employers to claim tax credits in the amount of 15% of the wages paid to secondary or postsecondary students between 16 and 23 years of age who participated in work-based learning programs. The total credit claimed per student could not exceed $1,500 for all tax years.

State Revenues: DLLR may approve a maximum of $500,000 in credits annually beginning in tax year 2016, and the credit may not exceed $1,000 for each eligible intern. As a result, general fund revenues decrease by $448,525, TTF revenues decrease by $36,475, and HEIF revenues decrease by $15,000 in fiscal 2017. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit.

Exhibit 1
Fiscal Impact
Fiscal 2017-2021

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
General Fund	($448,525)	($448,525)	($448,525)	($448,525)	($448,525)
HEIF	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
TTF	(36,475)	(36,475)	(36,475)	(36,475)	(36,475)
State	*(32,973)*	*(32,973)*	*(32,973)*	*(32,973)*	*(32,973)*
Local	*(3,502)*	*(3,502)*	*(3,502)*	*(3,502)*	*(3,502)*
Total	**($500,000)**	**($500,000)**	**($500,000)**	**($500,000)**	**($500,000)**

There are over 300,000 students enrolled in public or private nonprofit institutions of higher education in the State, and based on survey statistics from the National Association of Colleges and Employers, the Department of Legislative Services estimates that approximately 20% of these students would participate in paid internships in their field. Since an eligible employer may claim a credit of up to $1,000 for each eligible intern employed, it is assumed that DLLR awards the maximum amount of credits each year. The estimate also assumes that 50% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $32,000 in fiscal 2017 to add the credit to the personal and corporate income tax credit forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

General fund expenditures at DLLR increase by $86,087 in fiscal 2017, which reflects the bill's July 1, 2016 effective date. This estimate reflects the cost of hiring an administrator to oversee the program and to assist with processing applications. The estimate includes salaries, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$79,122
One-time Start-up Costs	4,363
Operating Expenses	2,602
DLLR Expenditures	**$86,087**
Comptroller Expenditures	**32,000**
Total FY 2017 State Expenditures	**$118,087**

Future year expenditures reflect annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Revenues: Local highway user revenues decrease by approximately $3,500 annually beginning in fiscal 2017 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland Higher Education Commission; Department of Labor, Licensing, and Regulation; National Association of Colleges and Employers; Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2016
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