Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 380 (Senator King, *et al.*)

Budget and Taxation Ways and Means

Income Tax Credit - Employers - Eligible Internships

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 $300,000 in aggregate tax credit certificate applications annually. **The bill takes effect July 1, 2018, and applies to tax years 2019 through 2021.**

Fiscal Summary

State Effect: General fund revenues decrease by $269,100 annually in FY 2020 through 2022 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by $21,900 and Higher Education Investment Fund (HEIF) revenues decrease by $9,000 in FY 2020 through 2022. General fund expenditures increase by $63,000 in FY 2019 due to implementation and administrative costs at DLLR and the Comptroller's Office.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	$0	($269,100)	($269,100)	($269,100)	$0
SF Revenue	$0	($30,900)	($30,900)	($30,900)	$0
GF Expenditure	$63,000	$41,500	$42,900	$22,600	$0
Net Effect	($63,000)	($341,500)	($342,900)	($322,600)	$0

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

Local Effect: Local highway user revenues decrease by approximately $2,100 annually in FY 2020 through 2022 as a result of credits claimed against the corporate income tax.

Small Business Effect: Minimal.

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 not be carried over to any other taxable year. DLLR must adopt regulations that provide for the administration of the tax credit. The Comptroller, in consultation with DLLR, must report to the General Assembly on the utilization of the tax credit by July 1, 2021.

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.

Under the More Jobs for Marylanders Program, there is a tax credit against the State income tax for individuals or corporations that employ an apprentice for at least seven months during a taxable year in an apprenticeship program registered with the Maryland Apprenticeship and Training Council. The income tax credit is equal to the lesser of $1,000 for each apprentice or the taxpayer's tax liability. The credit may be carried forward to succeeding tax years until the full amount of the credit is claimed. The taxpayer claiming the credit must attach specified proof of eligibility to the taxpayer's return, and DLLR may approve tax credits of up to $500,000 annually.

State Revenues: DLLR may approve a maximum of $300,000 in credits annually in tax years 2019 through 2021, and the credit may not exceed $1,000 for each eligible intern. As a result, general fund revenues decrease by $269,100, TTF revenues decrease by $21,900, and HEIF revenues decrease by $9,000 in fiscal 2020 through 2022. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit.

Exhibit 1
Fiscal Impact
Fiscal 2020-2022

	FY 2020	FY 2021	FY 2022
General Fund	($269,100)	($269,100)	($269,100)
HEIF	(9,000)	(9,000)	(9,000)
TTF	(21,900)	(21,900)	(21,900)
State	*(19,800)*	*(19,800)*	*(19,800)*
Local	*(2,100)*	*(2,100)*	*(2,100)*
Total	**($300,000)**	**($300,000)**	**($300,000)**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

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 $34,000 in fiscal 2019 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 $28,955 in fiscal 2019, which reflects a six-month implementation delay from the bill's July 1, 2018 effective date. This estimate reflects the cost of hiring a contractual 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.

Contractual Position	1
Contractual Salary and Fringe Benefits	$21,252
One-time Start-up Costs	4,890
Operating Expenses	2,813
DLLR Expenditures	**$28,955**
Comptroller Expenditures	**34,000**
Total FY 2019 State Expenditures	**$62,955**

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses through fiscal 2022.

This estimate does not include any health insurance costs that could be incurred for the specified contractual employee under the State's implementation of the federal Patient Protection and Affordable Care Act.

Local Revenues: Local highway user revenues decrease by approximately $2,100 annually in fiscal 2020 through 2022 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

Additional Information

Prior Introductions: SB 522 of 2017 passed the Senate and was referred to the House Rules and Executive Nominations Committee, but no further action was taken. Its cross file, HB 1483, received a hearing in the House Ways and Means Committee, but no further action was taken. A similar bill, SB 646 of 2016, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: HB 1358 (Delegate A. Washington, *et al.*) - Ways and Means.

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

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