

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 134

(The President)(By Request - Administration)

Budget and Taxation

Ways and Means

Small Business Relief Tax Credit

This Administration bill creates a refundable credit against the State income tax for a small business that employs 14 or fewer employees and provides paid sick and safe leave in accordance with the Maryland Healthy Working Families Act to a qualified employee who earns 250% of the annual federal poverty guidelines for a single-person household or less a year. The credit is the lesser of \$500 for each qualified employee or the total amount of qualified employer benefits accrued by qualified employees. The Department of Commerce (Commerce) may issue tax certificates not exceeding \$5 million annually. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General and special fund revenues decrease by \$5 million annually beginning in FY 2019. General fund expenditures increase by \$33,000 in FY 2019.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$4,657,100)	(\$4,657,100)	(\$4,657,100)	(\$4,657,100)	(\$4,657,100)
SF Revenue	(\$342,900)	(\$342,900)	(\$342,900)	(\$342,900)	(\$342,900)
GF Expenditure	\$33,000	\$0	\$0	\$0	\$0
Net Effect	(\$5,033,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)

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

Local Effect: Local highway user revenues decrease by \$23,300 annually beginning in FY 2019. Expenditures are not affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: A qualified employee benefit is paid earned sick and safe leave that is paid at the same wage rate as the qualified employee normally earns and meets or exceeds the requirement under the Maryland Healthy Working Families Act.

The bill specifies the information included on the tax credit application, the application process, and the reporting requirement. Commerce must issue tax credit certificates to qualified applicants on a first-come, first-served basis. Commerce and the Comptroller must jointly adopt regulations related to the bill.

Current Law: The State provides several tax credits to employers for providing employee benefits. The Qualifying Employees with Disabilities Tax Credit allows an employer who hires a qualified individual with a disability to claim a tax credit for certain wages paid to the employee and for child care and transportation expenses paid on behalf of the employee in the first two years of employment. The maximum amount of eligible child care and transportation expenses that can be claimed in each of the first two years is \$900.

Chapter 7 of 1998 created a tax credit equal to 5% of an employer's cost for providing long-term care insurance benefits to employees. The credit is capped at \$5,000 or \$100 per employee covered.

Maryland-based businesses that provide commuter benefits for employees may claim a tax credit for a portion of the amounts paid during the taxable year. Commuter benefits include certain vanpool costs for an employee's travel to and from home and the workplace, a Guaranteed Ride Home program, or a parking "Cash-Out" program. The tax credit is 50% of the cost of providing the commuter benefits up to a maximum of \$100 per month (based on a \$200 employer contribution) for each employee.

Maryland Healthy Working Families Act

Chapter 1 of 2018 requires an employer with 15 or more employees to have a sick and safe leave policy under which an employee earns at least 1 hour of *paid* sick and safe leave, at the same rate as the employee normally earns, for every 30 hours an employee works. An employer with 14 or fewer employees, based on the average monthly number of employees during the preceding year, must at least have a sick and safe leave policy that provides an employee with at least 1 hour of *unpaid* sick and safe leave for every 30 hours an employee works. An employer is not required to allow an employee to earn or carry over more than 40 hours of earned sick and safe leave in a year, use more than 64 hours of earned leave in a year, accrue more than 64 hours at any time, or use earned sick and safe leave during the first 106 calendar days the employee works for the employer. An employer is not required

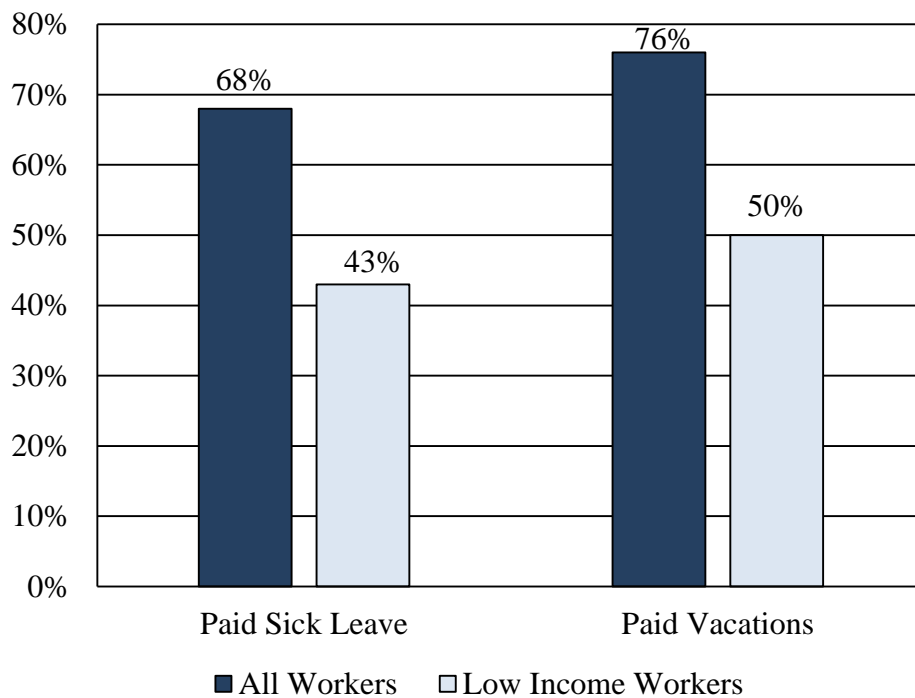
to carry over unused earned sick and safe leave if the leave is awarded at the beginning of each year.

Earned sick and safe leave begins to accrue the later of February 11, 2018, or the date that an employee begins employment with the employer.

Background: In 2018, 250% of the annual federal poverty guidelines for a single-person household is \$30,350.

According to the U.S. Bureau of Labor Statistics, as shown in **Exhibit 1**, nationally, in 2017, 68% of workers in private-industry businesses have paid sick leave and 76% of workers in private-industry businesses have paid vacations. Private sector workers who earn \$12.25 or less per hour are less likely to receive these benefits, as shown in Exhibit 1.

Exhibit 1
Private Sector Workers with Access to Benefits



FSA: Flexible Spending Account

Note: Low-income workers are workers with hourly wages of \$12.25 or less.

Source: U.S. Bureau of Labor Statistics; Department of Legislative Services

State Revenues: Commerce may approve a maximum of \$5.0 million in credits annually beginning in tax year 2018. Based on data from the U.S. Bureau of Labor Statistics and the U.S. Census Bureau, DLS estimates there are 82,000 employees who earn \$30,350 or less and work for a business with fewer than 15 employees, of which approximately 34,000 employees likely already earn paid sick leave. Assuming at least 10,000 of these employees receive qualified paid sick and safe leave that equal at least \$500 per employee, Commerce will award the maximum amount of credits each year. As a result, general fund revenues decrease by \$4.7 million in fiscal 2019. Transportation Trust Fund revenues decrease by \$242,993 in fiscal 2019, and Higher Education Investment Fund revenues decrease by \$99,900. **Exhibit 2** shows the estimated State and local revenue impacts resulting from the tax credits.

Exhibit 2
State and Local Revenue Impacts
Fiscal 2019-2023

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
General Fund	(\$4,657,107)	(\$4,657,107)	(\$4,657,107)	(\$4,657,107)	(\$4,657,107)
HEIF	(99,900)	(99,900)	(99,900)	(99,900)	(99,900)
TTF	(242,993)	(242,993)	(242,993)	(242,993)	(242,993)
<i>State</i>	(219,666)	(219,666)	(219,666)	(219,666)	(219,666)
<i>Local</i>	(23,327)	(23,327)	(23,327)	(23,327)	(23,327)
Total	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)

HEIF: Higher Education Investment Fund

TTF: Transportation Trust Fund

This estimate assumes that two-thirds of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

State Expenditures: Commerce reports that it can implement the bill with existing resources by realigning staff. The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$33,000 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 system testing.

Local Revenues: Local highway user revenues decrease by approximately \$23,327 annually beginning in fiscal 2019 as a result of credits claimed against the corporate income tax, as shown in Exhibit 2.

Small Business Effect: Small businesses with 14 or fewer employees that provide paid sick and safe leave to employees who earn \$30,350 or less a year may benefit from claiming the tax credit. There are approximately 88,000 businesses with 14 or fewer employees, but it is unknown how many of these businesses offer paid sick and safe leave to employees who earn \$30,350 or less. Small businesses that provide qualified benefits to qualified employees may receive up to \$500 in tax credits per eligible employee.

Additional Information

Prior Introductions: None.

Cross File: HB 99 (The Speaker) (By Request - Administration) - Ways and Means.

Information Source(s): Department of Commerce; Comptroller's Office; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Health and Human Services; Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2018
mag/hlb Third Reader - March 26, 2018
Revised - Amendment(s) - March 26, 2018
Enrolled - April 17, 2018
Revised - Amendment(s) - April 17, 2018

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Small Business Relief Tax Credit

BILL NUMBER: SB 134

PREPARED BY: Chris Carroll

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS