HB 68

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE

House Bill 68 (Delegate Angel)
Ways and Means

Income Tax Credits - Employer Child Care Center and Employer-Provided Child Care Services

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This bill creates a tax credit against the State income tax for a taxpayer that incurs qualified expenses in order to establish a child care center that provides child care services for the children of the taxpayer's employees. The bill also creates a State income tax credit for a taxpayer that compensates a child care provider who provides child care services for the children of the taxpayer's employees or compensates a child care referral service for services provided to the taxpayer's employees. Each year, the Maryland State Department of Education (MSDE) may approve in the aggregate $1.0 million for each credit. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by $1.1 million annually beginning in FY 2019. Transportation Trust Fund (TTF) revenues decrease by $87,600 annually and Higher Education Investment Fund (HEIF) revenues decrease by $36,000 annually beginning in FY 2019. General fund expenditures increase by $145,700 in FY 2019 and by $83,100 in FY 2023.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	($1,076,400)	($1,076,400)	($1,076,400)	($1,076,400)	($1,076,400)
SF Revenue	($123,600)	($123,600)	($123,600)	($123,600)	($123,600)
GF Expenditure	$145,700	$75,200	$77,400	$80,200	$83,100
Net Effect	($1,345,700)	($1,275,200)	($1,277,400)	($1,280,200)	($1,283,100)

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

Local Effect: Local highway user revenues decrease by $8,400 annually beginning in FY 2019. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The employer child care center tax credit is equal to 25% of the qualified expenses, not to exceed $50,000 per taxpayer. Qualified expenses are the costs incurred to construct, renovate, or expand a child care center and the costs incurred to purchase equipment for a child care center.

The employer-provided child care services tax credit is equal to 25% of the compensation paid to child care providers, not to exceed $1,250 per child, and 25% of the compensation paid to child care referral services. The tax credit certificate may not exceed $50,000 per taxpayer. An individual who is self-employed is ineligible for the credit.

The bill specifies the application and approval process for each tax credit, which includes MSDE approving qualified applications on a first-come, first-served basis. MSDE must adopt regulations to implement the credits and the bill specifies reporting requirements for each credit. If the aggregate tax credit certificate amounts awarded in a taxable year total less than $1 million for either credit, any excess amount may be issued under tax credit certificates in the next taxable year. The credits are nonrefundable and may not be carried over to any other taxable year.

Current Law: The federal employer-provided child care tax credit may be claimed for 25% of the qualified child care facility expenditures plus 10% of the qualified child care resource and referral expenditures paid or incurred by an employer during the tax year. The credit is limited to no more than $150,000 per tax year.

Qualified child care expenditures are amounts paid or incurred to acquire, construct, rehabilitate, or expand depreciable (or amortizable) property to be used as part of a qualified child care facility of the taxpayer and that is not part of the principal residence of the taxpayer or any employee of the taxpayer. Qualified expenditures may also include the operating expenses of a qualified child care facility of the taxpayer, including expenses for employee training, scholarship programs, and increased compensation to employees with higher levels of child care training, or for contracting these services with a qualified child care facility to provide child care services to employees of the taxpayer. Qualified child care resource and referral expenditures are amounts paid or incurred under a contract to provide child care resource and referral services to employees of the taxpayer.

To qualify, a child care facility must meet several requirements, including the licensing of the facility as a child care facility and compliance with all State and local laws and regulations.

Background: During the 2016 interim, the Joint Committee on Children, Youth, and Families reviewed issues related to child care in Maryland. At the joint committee's request, the Department of Legislative Services (DLS) reviewed the tax incentives available to taxpayers to assist with the costs of raising children and this review resulted in the report Tax Incentives for Child and Dependent Care Expenses.

The U.S. Bureau of Labor Statistics reported in March 2016, 11% of workers had access to a workplace program that provided for either the full or partial cost of caring for an employee's children in a nursery, day care center, or a baby sitter in facilities either on or off the employer's premises.

State Revenues: MSDE may approve a maximum of $2.0 million in credits annually ($1 million for each credit), and each credit may not exceed $50,000 for each eligible taxpayer. DLS assumes MSDE awards the maximum amount of credits for the employer-provided child care services tax credit. While MSDE may award $1.0 million in employer child care center tax credits, DLS assumes only $200,000 of employer child care center tax credits will be awarded annually based on historical data of the federal employer-provided child care tax credit. As a result, general fund revenues decrease by $1.1 million in fiscal 2019. TTF revenues decrease by $87,565 in fiscal 2019, and HEIF revenues decrease by $36,000. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credits.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2019-2023

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Fund	($1,076,435)	($1,076,435)	($1,076,435)	($1,076,435)	($1,076,435)
HEIF	(36,000)	(36,000)	(36,000)	(36,000)	(36,000)
TTF	(87,565)	(87,565)	(87,565)	(87,565)	(87,565)
State	*(79,159)*	*(79,159)*	*(79,159)*	*(79,159)*	*(79,159)*
Local	*(8,406)*	*(8,406)*	*(8,406)*	*(8,406)*	*(8,406)*
Total	**($1,200,000)**	**($1,200,000)**	**($1,200,000)**	**($1,200,000)**	**($1,200,000)**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

It is assumed that individuals and businesses have enough tax liability to claim the full credits. This 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 $66,000 in fiscal 2019 to add the credits 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.

General fund expenditures at MSDE increase by $79,690 in fiscal 2019, which accounts for the bill's July 1, 2018 effective date. This estimate reflects the cost of hiring one tax credit administrator to administer the two tax credits. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$74,175
Operating Expenses	5,515
MSDE Expenditures	**$79,690**
Comptroller Expenditures	**66,000**
Total FY 2019 State Expenditures	**$145,690**

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expense.

Local Revenues: Local highway user revenues decrease by approximately $8,406 annually beginning in fiscal 2019, as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

Additional Information

Prior Introductions: HB 452 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Internal Revenue Service; U.S. Bureau of Labor Statistics; Department of Legislative Services

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