

Department of Legislative Services  
 Maryland General Assembly  
 2019 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 909 (Delegate Haynes)  
 Ways and Means

Income Tax Credit - Student Employees

This bill creates a tax credit against the State income tax for a business entity that employs a student employee. A student employee is an individual who attends a regular full-time public or private high school in the State in which at least 80% of the registered students are eligible for the federal free or reduced-price meal program. The student employee must be at least 14 years old but under the age of 19. The amount of the credit is equal to the cost of employing a student employee during the taxable year, not to exceed the lesser of \$1,000 for each eligible student employee or \$5,000. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

**State Effect:** General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues decrease by approximately \$884,000 beginning in FY 2020 due to tax credits claimed against the personal and corporate income tax. General fund expenditures for the Comptroller’s Office increase by \$68,700 in FY 2020 and TTF expenditures decrease by \$6,100.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$820,400)	(\$835,100)	(\$850,900)	(\$866,700)	(\$882,400)
SF Revenue	(\$63,600)	(\$64,900)	(\$66,100)	(\$67,300)	(\$68,600)
GF Expenditure	\$68,700	\$30,100	\$31,100	\$32,200	\$33,300
SF Expenditure	(\$6,100)	(\$6,200)	(\$6,300)	(\$6,400)	(\$6,600)
Net Effect	(\$946,600)	(\$923,900)	(\$941,800)	(\$959,800)	(\$977,700)

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

**Local Effect:** Local highway user revenues decrease by approximately \$6,100 beginning in FY 2020 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** The bill creates a tax credit against the State income tax for a business entity that employs a student employee during the taxable year. A business entity is a person conducting or operating a trade or business in the State or a specified nonprofit organization. The student employee must work for the business entity for at least three months during the taxable year and at least 20 hours each week during the period of employment. The business entity must provide the Comptroller with specified documentation. The credit is nonrefundable, except for specified nonprofit organizations, and the credit may not be carried over to any other taxable year.

**Current Law:** No State tax credit of this type exists for employing students, 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 the Department of Labor, Licensing and Regulation may approve tax credits of up to \$500,000 annually.

**Background:** The federal Community Eligibility Provision is a provision from the Healthy, Hunger-Free Kids Act of 2010 that allows schools and local educational agencies with high poverty rates to provide free breakfast and lunch to all students. Under the Community Eligibility Provision, all students in Dorchester and Somerset counties and Baltimore City qualify for free and reduced-price meals.

**State Revenues:** Tax credits may be claimed beginning in tax year 2019. Accordingly, general fund, TTF, and HEIF revenues decrease beginning in fiscal 2020 to the extent businesses employ eligible high school students and claim the credit. The Department of Legislative Services estimates there are approximately 26,400 students enrolled in high schools at which 80% of the registered students are eligible for the federal free or reduced-price meal program. The U.S. Census Bureau estimates approximately 17% of Baltimore City students and approximately 30% of students elsewhere in the State between the ages of 16 to 19 years old were employed in 2017. Of students that worked, nationally

approximately 17% of students worked over 20 hours per week for at least 13 weeks. Based on that data, the Department of Legislative Services estimates the credit could cost \$884,000 if approximately 884 students are eligible as student employees. However, if a business employs more than 5 student employees, the credit is capped at \$5,000, and not every business has a tax liability exceeding the credit, so the amount of revenue loss may be less than estimated.

The estimate assumes that 65% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax. As a result, general fund revenues decrease by \$820,400, TTF revenues decrease by \$45,100, and HEIF revenues decrease by \$18,500 in fiscal 2020. Future years reflect student enrollment growing 1.8% annually. **Exhibit 1** shows the estimated State fiscal impacts resulting from the tax credit.

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**Exhibit 1  
Fiscal Impact  
Fiscal 2020-2024**

	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>	<u><b>FY 2024</b></u>
General Fund	(\$820,400)	(\$835,100)	(\$850,900)	(\$866,700)	(\$882,400)
HEIF	(18,500)	(18,900)	(19,300)	(19,600)	(20,000)
TTF	(45,100)	(46,000)	(46,800)	(47,700)	(48,600)
<b>Total Revenues</b>	<b>(\$884,000)</b>	<b>(\$900,000)</b>	<b>(\$917,000)</b>	<b>(\$934,000)</b>	<b>(\$951,000)</b>
<b>TTF Expenditures</b>	<b>(\$6,100)</b>	<b>(\$6,200)</b>	<b>(\$6,300)</b>	<b>(\$6,400)</b>	<b>(\$6,600)</b>

HEIF: Higher Education Investment Fund  
TTF: Transportation Trust Fund

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**State Expenditures:** General fund expenditures increase by \$68,689 in fiscal 2020, which accounts for the bill's July 1, 2019 effective date. This estimate reflects the cost of hiring one part-time revenue specialist within the Comptroller's Office to administer and verify the credit and a one-time expenditure increase of \$34,000 to add the credit to the personal and corporate income tax credit form. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	0.5
Salaries and Fringe Benefits	\$29,486
Tax Programming Costs	34,000
Operating Expenses	<u>5,203</u>
<b>Total FY 2020 State Expenditures</b>	<b>\$68,689</b>

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses.

A portion of TTF revenues are used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate tax revenues results in a 13.5% decrease in TTF expenditures to local governments. Accordingly, TTF expenditures decrease by \$6,100 in fiscal 2020 and by \$6,600 in fiscal 2024 as shown in Exhibit 1. TTF revenues also fund the State capital program; thus, a decrease in TTF revenues decreases expenditures for the State capital program.

**Local Revenues:** Local governments receive a portion of corporate income tax revenues as local highway user revenues through capital transportation grants. Under this bill, local highway user revenues decrease by approximately \$6,100 in fiscal 2020 and by \$6,600 in fiscal 2024 as a result of credits claimed against the corporate income tax.

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### **Additional Information**

**Prior Introductions:** HB 54 of 2016 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; U.S. Census Bureau; Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2019  
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