

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 89

(The President, *et al.*) (By Request - Administration)

Budget and Taxation

Rules and Executive Nominations

Small Business Relief Tax Credit – Alterations

This Administration bill expands the small business relief tax credit by allowing a credit to small businesses for providing qualified paid parental leave benefits to qualified employees. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: Allowing additional employee benefits to qualify for the tax credit does not materially affect State revenues or expenditures because the total annual amount of tax credits that may be awarded under current law is limited to \$5.0 million and the Department of Legislative Services (DLS) assumes that the program is fully subscribed.

Local Effect: None.

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

Analysis

Bill Summary: A qualified employer parental leave benefit is paid parental leave that is paid at the same wage rate that the qualified employee normally earns and meets or exceeds the requirements for paid parental leave provided to State employees in the Executive Branch. The credit is the lesser of \$500 for each qualified employee or the total amount of qualified employer parental leave benefits accrued by qualified employees.

For an employer that provides both a qualified employer parental leave benefit and a qualified employer sick and safe leave benefit, the credit is the lesser of \$1,000 for each qualified employee or the total amount of both of those benefits accrued by qualified employees.

Current Law: Chapter 571 of 2018 created 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. A qualified employee is one who earns 250% or less of the annual federal poverty guidelines for a single-person household. 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 may issue tax credit certificates not exceeding \$5 million annually and must issue tax credit certificates to qualified applicants on a first-come, first-served basis.

Parental Leave for State Employees in the Executive Branch

Chapter 752 of 2018 provides up to 60 days of paid parental leave to an employee in the Executive Branch of State government who is the primary caregiver responsible for the care and nurturing of a child to care for the child immediately following either the child's birth or the adoption of a child who is younger than age six. An employee entitled to parental leave may use available accrued annual leave and personal leave. If that leave is less than 60 days, the State agency that employs the employee must provide the employee with additional paid leave to attain 60 days of parental leave.

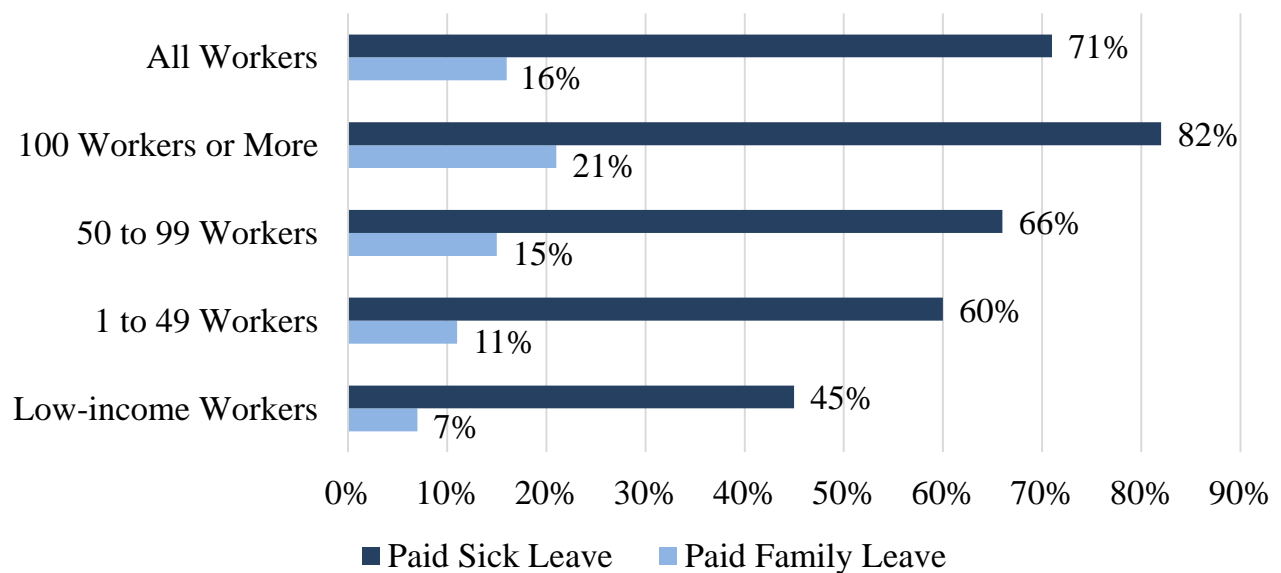
Federal Paid Family and Medical Leave Tax Credit

The federal Tax Cuts and Jobs Act of 2017 created a tax credit for employers who voluntarily offer paid family and medical leave to employees. Eligible employers are entitled to claim a credit for paid family and medical leave equal to 12.5% of wages paid to qualifying employees during any period in which such employees are on leave under the Family and Medical Leave Act provided that the rate of payment is 50% of the wages normally paid to the employee. Only paid family and medical leave provided to employees whose prior-year compensation was at or below a certain amount qualify for the credit. Generally, for tax year 2018, the employee's 2017 compensation from the employer must have been \$72,000 or less. The credit is only available for wages paid in tax years 2018 and 2019.

Background: In 2019, 250% of the annual federal poverty guidelines for a single-person household is \$31,225.

According to the U.S. Bureau of Labor Statistics, as shown in **Exhibit 1**, nationally, in 2018, 71% of workers in private-industry businesses had access to paid sick leave and 16% of workers in private-industry businesses had access to paid family leave. Family leave is granted to an employee to care for a family member and includes paid maternity and paternity leave. Low-wage workers or those who worked in small businesses were less likely to receive paid sick or family leave.

Exhibit 1
Private-sector Workers with Access to Paid Sick or Family Leave



Note: Low-income workers are workers with hourly wages of \$12.75 or less.

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

Based on data from the U.S. Bureau of Labor Statistics and the U.S. Census Bureau, DLS estimates there are 76,000 full-time employees who earn \$31,225 or less and work for a business with fewer than 15 employees, of which approximately 46,000 employees likely already earn paid sick leave and 8,000 employees likely already earn paid parental leave.

Small Business Effect: Small businesses with 14 or fewer employees that provide paid parental leave to employees who earn \$31,225 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 parental leave. However, it is assumed that the tax credit program is already fully subscribed by businesses that offer paid sick and

safe leave to employees who earn \$31,225 or less. Thus, while small businesses that provide paid parental leave may potentially benefit from the expansion, it is assumed that the tax credit program is fully subscribed so there is only a minimal effect on businesses.

Additional Information

Prior Introductions: None.

Cross File: HB 46 (The Speaker, *et al.*) (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 - January 28, 2019
mm/hlb Third Reader - March 21, 2019
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Small Business Relief Tax Credit - Expansion

BILL NUMBER: SB 89

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