

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1198
Ways and Means

(Delegate Rose, *et al.*)

Income Tax Credit - Small Businesses - Student Interns

This bill creates a credit against the State income tax for a small business that employs a high school or college intern or an apprentice who works for at least 20 hours each week for at least three months during the taxable year. The amount of the credit is equal to the lesser of \$2,500 for each eligible intern or apprentice hired or \$7,500. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: Potential significant decrease in general fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues beginning in FY 2021 due to tax credits claimed against the personal and corporate income tax. Under one set of assumptions, general fund, TTF, and HEIF revenues decrease by a total of approximately \$16 million annually. TTF expenditures decrease beginning in FY 2021. General fund expenditures for the Comptroller's Office increase by \$98,100 in FY 2021 and by \$62,800 in FY 2025.

Local Effect: Local highway user revenues decrease beginning in FY 2021 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A small business is an individual, partnership, limited partnership, limited liability partnership, limited liability company, or a corporation that employs 50 or fewer full-time employees. The small business must provide the Comptroller with specified documentation and may not claim the tax credit for more than three high school or college interns or apprentices annually. The credit is nonrefundable, except for specified nonprofit organizations, and the credit may not be carried over to any other taxable year.

Current Law: Under the More Jobs for Marylanders Program, there is a 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 for the first year of employment of an eligible apprentice and 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 Maryland Department of Labor (MDL) may approve tax credits of up to \$500,000 annually. The tax credit terminates January 1, 2020.

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.

Background: Generally, apprenticeship is a voluntary, industry-sponsored system that prepares individuals for occupations typically requiring high-level skills and related technical knowledge. Apprenticeships are sponsored by one or more employers and may be administered solely by the employer or jointly by management and labor groups. An apprentice receives supervised, structured, on-the-job training under the direction of a skilled journeyman and related technical instruction in a specific occupation. Apprenticeships are designed to meet the workforce needs of the program sponsor. Many industry sponsors use apprenticeship as a method to train employees in the knowledge necessary to become a skilled worker.

As of November 2019, there were 10,711 apprentices registered, of which 3,612 were new apprentices registered, and there were 3,820 participating employers and 158 program sponsors.

MDL issued 229 certifications for businesses to receive the apprenticeship tax credit in tax year 2017 and 346 certifications for businesses to receive the tax credit in tax year 2018. MDL has issued 32 certifications as of January 2020 for tax year 2019, but expects that number to increase as more taxpayers file their 2019 tax returns.

In fiscal 2019, the Comptroller's Office reports 95 taxpayers claimed apprenticeship tax credits of \$137,322.

State Revenues: Tax credits may be claimed beginning in tax year 2020. Accordingly, general fund, TTF, and HEIF revenues decrease by a potentially significant amount

beginning in fiscal 2021. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of small businesses that claim credits, the number of eligible students and apprentices employed at those small businesses, the amount of credits claimed, and the tax liability of small businesses claiming the credit.

Almost 28% of employees work for small businesses. Assuming there are 30,000 interns and 1,900 eligible apprentices in the State and that 28% of them work for small businesses, the Comptroller’s Office estimates that income tax revenues will decrease by approximately \$16.0 million annually. This estimate assumes 80% of eligible businesses participate in the tax credit program. However, the Department of Legislative Services notes that the bill does not define an internship or apprenticeship so the fiscal impact could vary significantly. The current apprenticeship tax credit defines an eligible apprentice as an individual who is enrolled in an apprenticeship training program registered with the Maryland Apprenticeship and Training Council.

State Expenditures: General fund expenditures increase by \$98,138 in fiscal 2021, which accounts for the bill’s July 1, 2020 effective date. This estimate reflects the cost of hiring one 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 forms. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salaries and Fringe Benefits	\$58,613
Tax Programming Costs	34,000
Operating Expenses	<u>5,525</u>
Total FY 2021 State Expenditures	\$98,138

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 income tax revenues results in a 13.5% decrease in TTF expenditures to local governments (9.6% beginning in fiscal 2025). 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. Local highway user revenues decrease beginning in fiscal 2021 as a result of credits claimed against the corporate income tax.

Small Business Effect: Small businesses that employ interns or apprentices benefit by receiving a tax credit equal to \$2,500 for each eligible intern or apprentice hired for up to three interns or apprentices. There are approximately 100,905 firms in Maryland with fewer than 50 employees, but it is unknown how many of these businesses will hire interns or apprentices and whether these businesses will have sufficient tax liability to claim the credit.

Additional Information

Prior Introductions: A similar bill, HB 896 of 2019, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Maryland Higher Education Commission; Maryland Department of Labor; Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2020
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