

**Department of Legislative Services**  
 Maryland General Assembly  
 2021 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

Senate Bill 496

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

Budget and Taxation

Ways and Means and Economic Matters

**Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families  
 (RELIEF) Act**

This emergency Administration bill provides income tax relief to certain taxpayers, economic impact payments to certain taxpayers, and other forms of more immediate assistance to businesses and employers. The bill also authorizes the Governor to transfer, in fiscal 2021, and spend a total of \$520.0 million from specified sources. A portion of that funding is to assist schools in reopening to in-person classroom instruction and for summer school instruction; the balance is to provide financial assistance to individuals, businesses, and nonprofit organizations and funding for specified State agencies.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$767.6 million in FY 2021 and \$92.5 million in FY 2022; the Governor’s proposed FY 2022 budget assumes lesser reductions – \$616.7 million and \$20.0 million, respectively. General fund expenditures increase by \$0.3 million in FY 2022, escalating to \$11.5 million in FY 2025. Special fund revenues increase by \$100.0 million in FY 2021 (reflecting transfer of nonbudgeted local income tax reserve account monies) but decrease by \$0.8 million in FY 2022 and \$1.2 million annually thereafter through FY 2026, with a lesser impact the following year. Special fund expenditures increase by \$520.0 million in FY 2021 for the authorized spending purposes. Nonbudgeted impacts are not shown below; however, revenues for the Unemployment Insurance Trust Fund (UITF) are assumed to decrease by \$109.2 million in FY 2022 and \$218.3 million in FY 2023, with lesser impacts in subsequent years, while UITF expenditures increase by \$545.4 million in FY 2025 to repay borrowed funds.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$767.6)	(\$92.5)	(\$22.4)	(\$21.8)	(\$20.4)
SF Revenue	\$100.0	(\$0.8)	(\$1.2)	(\$1.2)	(\$1.2)
GF Expenditure	\$0	\$0.3	\$2.5	\$7.5	\$11.5
SF Expenditure	\$520.0	(-)	(-)	(-)	(-)
Net Effect	(\$1,187.6)	(\$93.6)	(\$26.1)	(\$30.5)	(\$33.1)

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

**Local Effect:** Local income tax revenues decrease by \$187.4 million in FY 2021 and \$15.5 million in FY 2025. Local highway user revenues decrease to the extent coronavirus relief payments are exempted from the corporate income tax. Local revenues and expenditures increase in FY 2021 due to the authorized fund transfers and spending.

**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. The attached assessment does not reflect amendments to the bill.

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## Analysis

**Bill Summary:** The bill (1) provides up to \$750 in economic impact payments to a taxpayer who claims the State earned income tax credit in certain tax years; (2) exempts from the State income tax the unemployment insurance (UI) benefits received by an individual; (3) authorizes certain businesses to retain an increased sales and use tax vendor credit; (4) excludes fiscal 2020 and 2021 from the multi-year lookback periods generally used to establish employer UI taxes each year (this provision terminates June 30, 2025); (5) exempts from the State income tax certain coronavirus relief payments; (6) authorizes the Department of Commerce (Commerce) to convert certain business loans into grants; and (7) establishes reporting requirements for the Comptroller.

The bill also authorizes the Governor, in fiscal 2021, to transfer (1) \$100.0 million from the Blueprint for Maryland's Future Fund to the Maryland State Department of Education (MSDE) to facilitate delivering in-person classroom instruction and for summer school instruction and (2) \$420.0 million, combined, from the Revenue Stabilization Account (known as the Rainy Day Fund) and local income tax reserve account to a newly established fund to provide financial assistance to individuals, businesses, and nonprofit organizations and funding for specified State agencies. The bill expresses legislative intent that, to the extent practicable, the funds authorized be distributed proportionally by population across the State. Other priorities may be attached to each specified funding provision.

### *Economic Impact Payments*

The bill requires the Comptroller to issue an economic impact payment to a taxpayer who claimed a State earned income credit in tax year 2019. Individuals who claim an earned income tax credit in tax year 2020 will also receive an economic impact payment. **Exhibit 1** shows the economic impact payments proposed by the bill.

The bill exempts these economic impact payments from the State income tax.

The Comptroller must report specified information to the Governor and General Assembly on the economic impact payments issued.

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**Exhibit 1**  
**Economic Impact Payments**  
**Tax Year 2019 and 2020**

	<u><b>TY 2019</b></u>	<u><b>TY 2020</b></u>	<u><b>Total</b></u>
Individual	\$300	\$150	\$450
Married Filing Jointly*	500	250	750

\*Married Filing Jointly includes head of household and surviving spouse.

Note: Not all taxpayers will receive payments in both tax years.

Source: Department of Legislative Services

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*State Income Tax Exemption for Unemployment Insurance Benefits*

UI payments are currently subject to federal and State income taxation. Beginning with tax year 2020, the bill exempts from the State income tax the UI benefits received by an individual.

*Enhanced Sales and Use Tax Credit for Certain Vendors*

The bill authorizes eligible vendors to retain an increased vendor tax credit for the four consecutive months following the enactment of the bill. The amount of the vendor credit allowed is equal to the lesser of the amount of sales and use tax collected during the month the vendor qualifies for the increased credit or \$3,000. In order to be eligible, a vendor (1) must file a timely sales and use tax return or consolidated return and (2) the gross amount of sales and use tax remitted with the return may not exceed \$6,000. This credit would be claimed in lieu of the standard vendor credit authorized under current law.

*Exclusion of Pandemic Claims History for Determining Employer Unemployment Insurance Taxes*

In determining an employer's earned rate of contribution for purposes of establishing that employer's UI taxes for the following year, "rating year" does not include fiscal 2020 or 2021.

### *State Income Tax Exemption for Coronavirus Loan Forgiveness and Grants*

In tax years 2020 and 2021, the bill exempts from the State income tax a coronavirus relief payment received by a person. A “coronavirus relief payment” is a federal, State, or local government grant or loan (1) provided to a person for the purpose of assisting with the economic hardships resulting from the coronavirus pandemic and (2) applied for on or after March 5, 2020.

The Comptroller must publish guidance regarding eligibility for the exemption, including a list of eligible grants and loans. A unit of State or local government must, on request, provide to the Comptroller the name of the coronavirus relief payment programs administered by the entity and any other requested information regarding relief payments.

### *Equity Participation Investment Program Grants*

The bill authorizes Commerce to forgive up to \$50,000 of a loan, if the loan was made to a small business under the Equity Participation Investment Program (EPIP) within the Maryland Small Business Development Financing Authority (MSBDFA). This provision applies only to fiscal 2021 and 2022 loans provided to relieve the adverse effects of the coronavirus pandemic.

### *Fiscal 2021 Transfers to the Recovery Now Fund and Related Spending*

The bill establishes a Recovery Now Fund, administered by the Department of Budget and Management (DBM), which is to receive money to be spent on the purposes specified by the bill. The Governor may transfer to the Recovery Now Fund (1) \$320.0 million from the Rainy Day Fund and (2) \$100.0 million from the local income tax reserve account. The transferred funds may be used as specified to provide (1) financial assistance to individuals, businesses, and nonprofit organizations; (2) funding for the Maryland Department of Health and UI program; and (3) the restoration of Maryland Department of Transportation (MDOT) transit services and highway maintenance funding. **Appendix 1** provides more detail on the funding provided to each program. Any balance remaining in the fund at the end of fiscal 2021 reverts to the general fund.

The Comptroller’s Office must perform a cash flow analysis of the local income tax reserve account to determine how much of the account balance is required to make local income tax distributions to local governments and the amount that can be used to support COVID-19 related expenses and report the results to the Senate Budget and Taxation and House Ways and Means Committees and the Maryland Association of Counties. Every two weeks following the enactment of the bill, DBM must report to the General Assembly specified information about the distribution of the funds and how they were used.

### *Transfers from the Maryland Blueprint Fund by Budget Amendment*

The bill also authorizes the Governor to transfer, by budget amendment, \$100.0 million from the Blueprint for Maryland's Future Fund to MSDE for two purposes:

- \$50.0 million to be distributed to eligible schools to provide eight weeks of summer school instruction to at least 25,000 students. Funds must be distributed in proportion to the number of students who qualify for free or reduced-price meals in each school compared to the total number of such students in the State.
- \$50.0 million to be distributed to eligible schools to safely move to delivering in-person instruction, with priority given to special education students, students without reliable broadband services, and students who have shown a need for in-person instruction in order to be successful. Funds must be distributed in proportion to each school's enrollment.

Schools eligible for these funds are public schools, the Maryland School for the Deaf, the Maryland School for the Blind, the SEED School of Maryland, and nonpublic placement schools. Funds allocated to public schools must be distributed to local school systems.

Every two weeks following the enactment of the bill, MSDE must report to the General Assembly and DBM specified information about the distribution of the funds and how they were used.

### **Current Law/Background:**

#### *Earned Income Tax Credits*

Low- and moderate-income workers may be eligible for a federal refundable credit that generally equals a specified percentage of earned income (wages and other employee compensation plus net self-employment earnings) up to a maximum dollar amount.

Maryland offers a nonrefundable credit, which is equal to the lesser of 50% of the federal credit or the State income tax liability in the taxable year. If the nonrefundable credit reduces a taxpayer's liability to zero, the taxpayer is eligible to claim a refundable credit equal to 28% of the federal credit, minus any pre-credit State tax liability.

Except as discussed below, Maryland conforms to the federal eligibility standards – only those individuals who claim the federal earned income tax credit may claim the State credit. To be eligible in tax year 2020, a taxpayer must have earned income, investment income of \$3,650 or less, and a modified federal adjusted gross income of less than:

- \$50,594 (\$56,844 married filing jointly) with three or more qualifying children;
- \$47,440 (\$53,330 married filing jointly) with two qualifying children;
- \$41,756 (\$47,646 married filing jointly) with one qualifying child; and
- \$15,820 (\$21,710 married filing jointly) with no qualifying children.

The income phase outs shown above are about 2% lower for tax year 2019.

In tax year 2020, a taxpayer may elect to use 2019 earned income for the purposes of calculating the earned income credit if the taxpayer's tax year 2020 earned income is less than the earned income in 2019. This provision will assist individuals who have experienced a loss in employment or a decrease in earnings.

Under federal law, eligibility for individuals without a qualifying child is limited to individuals who are between ages 25 and 64. Chapters 611 and 612 of 2018 expanded eligibility for the State credit that can be claimed by an individual without a qualifying child by eliminating the requirement that an individual must be at least 25 years of age.

#### *Sales and Use Tax Vendor Credit*

In order to cover expenses for collecting the State sales and use tax, persons filing timely returns are allowed to take a vendor credit against the gross tax remitted in an amount equal to 1.2% of the first \$6,000 collected and 0.9% of the excess, capped at \$500 per filing period (monthly basis). The sales and use tax vendor credit is estimated to be \$20.7 million in fiscal 2021 and \$21.2 million in fiscal 2022.

#### *Employer State Unemployment Insurance Taxes*

UI is administered and funded through a federal-state partnership. Funding for each state program is provided by employers through UI taxes paid to both the federal government for administrative and other expenses and to the states for deposit in their UI trust funds. Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse UITF for claims paid in lieu of paying taxes. Therefore, for most Maryland employers, the State UI tax rate is a function of:

- the employer's specific unemployment claims history; and
- the applicable tax table, which is based on the State's UITF balance and applies to most taxable employers.

## Determining Employer Tax Rates

The typical process is as follows. On July 1 each year, the relative amount of UI claims in the three immediately preceding fiscal (“rating”) years is used to determine an employer’s benefit ratio. For example, calendar 2020 employer taxes were based on UI claims made from fiscal 2017 through 2019. Specifically, the benefit ratio is calculated as the sum of the benefits charged to an employer’s account (*i.e.*, the amounts paid to unemployed individuals) divided by the employer’s taxable wages during that time. Taxable wages are defined as the first \$8,500 earned by each covered employee in a calendar year. The benefit ratio is then applied to the tax rate table, which is determined by measuring the adequacy of UITF to pay benefits, to determine an employer’s tax rate. Taxes are billed quarterly. **Exhibit 2** shows the range of State UI taxes a typical employer owes based on the tax table in effect; there are other rates for new employers and in other limited circumstances.

### Exhibit 2 Tax Tables and Applicable Employer Tax Rates

Tax Table	As of Sept 30, If the Trust Fund Balance, As a Percentage of Taxable Wages		Trust Fund Balance (\$ in Millions)*		Then Next Year’s Tax Rates Range From...			Annual Tax Per Employee (Rate x \$8,500)*		
	Exceeds	Up to	Exceeds	Up to	No Claims	Single Claim*	Up to	No Claims	Single Claim*	Up to
A	5.00%	N/A	\$995.8	N/A	0.30%	0.60%	7.50%	\$25.50	\$51.00	\$637.50
B	4.50%	5.00%	\$896.2	\$995.8	0.60%	0.90%	9.00%	\$51.00	\$76.50	\$765.00
C	4.00%	4.50%	\$796.6	\$896.2	1.00%	1.50%	10.50%	\$85.00	\$127.50	\$892.50
D	3.50%	4.00%	\$697.1	\$796.6	1.40%	2.10%	11.80%	\$119.00	\$178.50	\$1,003.00
E	3.00%	3.50%	\$597.5	\$697.1	1.80%	2.60%	12.90%	\$153.00	\$221.00	\$1,096.50
F	0.00%	3.00%	\$0.0	\$597.5	2.20%	3.10%	13.50%	\$187.00	\$263.50	\$1,147.50

Notes: Fund balance threshold dollar amounts are based on the 2020 taxable wage base and are subject to change each year. A “single claim” represents the tax rate applicable to the lowest possible rate associated with nonzero (.0001 to .0027) benefit ratios. Taxes are applied to the first \$8,500 earned by each employee, each year; compensation less than that amount reduces taxes owed accordingly. Table F is in effect in 2021 and is likely to be in effect for several more years; Table A had been in effect since 2016.

Source: Department of Legislative Services

Generally, the tax table determination is made September 30 each year for the upcoming year and is based on the UITF balance as a percentage of taxable wages in the State. However, Chapter 337 of 2016 requires federal solvency guidelines to be met before the State moves to a tax table with lower rates. Put another way, under existing State law, since the State has moved out of Table A and into Table F, it will not move to any other tax table

until the UITF balance meets federal solvency guidelines, even if it would otherwise do so. At the time of passage, the Administration indicated the UITF balance necessary to meet the federal solvency guidelines was about \$1.5 billion; however, the guidelines are based in part on the highest annual amounts of benefits paid and are, therefore, subject to change due to the effects of COVID-19 on the economy.

#### *Executive Order Limiting Effect of COVID-19 Claims on Employer Taxes*

As discussed above, the typical process for determining an employer's benefit ratio involves a lookback period over the three immediately preceding fiscal years; for calendar year 2021 taxes, the period would normally be fiscal 2018 through 2020, which includes the first four months of UI claims due to COVID-19. However, in December 2020, the Governor signed an [executive order](#) that effectively freezes employer benefit ratios in place at their 2020 tax levels. The executive order remains in effect until after the termination of the state of emergency and the proclamation of the catastrophic health emergency has been rescinded, or until rescinded, superseded, amended, or revised by additional orders.

Under the executive order, employers will pay taxes in Table F in 2021, but based on pre-pandemic employment claims history, which will generally result in an employer's taxes being less than they otherwise would have been.

#### *Optional Benefit Charge Waiver*

The Secretary of Labor may waive the benefit charges against the earned rating record of an employer during a state of emergency if the benefits are paid to the claimant during a period in which the claimant is temporarily unemployed because the employer shut down due to a natural disaster.

#### *Financing through the Maryland Small Business Development Financing Authority*

MSBDFFA, and its subprograms including EPIP, typically provides financing to small businesses that are unable to obtain adequate business financing on reasonable terms. In calendar 2020, Commerce provided \$10.0 million in COVID-19 emergency relief loans to businesses that experienced economic hardship due to the coronavirus pandemic crisis. An eligible Maryland business may receive a low-interest loan of between \$25,000 and \$200,000, with repayments over a five-year period with no payments due within the first year. Federal funding provided one-half of the funding; the remaining one-half was provided by a transfer to Commerce from the Rainy Day Fund. The Governor's proposed fiscal 2022 budget includes \$5.5 million in funding for MSBDFFA.



### *Revenue Stabilization Account*

The purpose of the Rainy Day Fund within the State Reserve Fund is to retain State revenues for future needs and to reduce the need for future tax increases by moderating revenue growth. It is the goal of the State that 10% of estimated general fund revenues in each fiscal year be retained in the account.

In general, if the balance in the Rainy Day Fund is below 3.0% of the estimated general fund revenues for that fiscal year, the Governor must include in the budget bill an appropriation to the fund of at least \$100.0 million. If the balance in the Rainy Day Fund is at least 3.0% but less than 7.5% of the estimated general fund revenues for that fiscal year, the Governor must include an appropriation in the budget that is the lesser of \$50.0 million or whatever amount is required for the balance to exceed 7.5% of the estimated general fund revenues for that fiscal year.

### *Local Income Tax Reserve Account*

The local income tax reserve account is used by the Comptroller's Office to manage the cash flow of personal income tax payments and distributions to local governments. The account is also used to meet the State's liability for local income taxes according to generally accepted accounting principles. A portion of personal income tax net receipts is put into the account each month, representing an estimate of local income tax payments. In all but two months, a distribution of local income tax revenues is made from the account to local governments. The Comptroller's Office distributes to each municipality, special taxing district, and county its pro-rata share of income tax revenue based on the income tax collected in each local jurisdiction. After making specified distributions, the Comptroller's Office distributes to each special taxing district and municipality, based on the certification as to the State income tax and county income tax liability of its residents, the greater of 17% of the county income tax liability or 0.37% of the Maryland taxable income of the residents. After making distributions to municipalities and special taxing districts, the Comptroller's Office distributes to each county the remaining revenue attributable to the county income tax.

### *Blueprint for Maryland's Future Fund*

The Blueprint for Maryland's Future Fund was created by Chapter 771 of 2019 as the successor to the Commission on Innovation and Excellence in Education Fund. The purpose of the fund is to assist in providing adequate funding for early childhood education and primary and secondary education to provide a world-class education to students. The fund consists of (1) specified allocations of personal income tax and sales tax revenues; (2) money appropriated in the budget for the fund; and (3) any other money from other sources accepted for the benefit of the fund.

**State Fiscal Effect:** The bill (1) provides up to \$750 in economic impact payments to a taxpayer who claims the State earned income tax credit in certain tax years; (2) exempts from the State income tax UI benefits received by an individual; (3) authorizes certain businesses to retain an increased sales and use tax vendor credit; (4) excludes fiscal 2020 and 2021 from the multi-year lookback periods generally used to establish employer UI taxes each year; (5) exempts from the State income tax certain coronavirus relief payments; (6) authorizes Commerce to convert certain business loans into grants; and (7) authorizes in fiscal 2021 specified revenue transfers and spending.

As a result, the net effect on State finances (excluding UITF and the transfer of funds from the local income tax reserve account, which are nonbudgeted) is a decrease of \$1.19 billion in fiscal 2021, \$93.6 million in fiscal 2022, \$26.1 million in fiscal 2023, \$30.5 million in fiscal 2024, and \$33.1 million in fiscal 2025. **Appendix 2 – Fiscal Impact of Legislation** details the fiscal impact of the provisions in fiscal 2021 through 2025. Each of the bill’s impacts is discussed below.

**Economic Impact Payments**

**State Revenues:** The bill requires the Comptroller to issue economic impact payments to individuals who claim the earned income tax credit in tax year 2019 and 2020. As a result, general fund revenues decrease by \$266.7 million in fiscal 2021. The Governor’s proposed fiscal 2022 budget assumes a \$266.7 million general fund reduction in fiscal 2021 due to the proposed payments. **Exhibit 3** provides more detail on the proposed payments.

**Exhibit 3**  
**Economic Impact Payments by Filing Status**  
**Tax Year 2019 and 2020**

<u>Filing Status</u>	<u>Returns</u>	<u>Per Return Payment</u>		<u>Total Payments (\$ in Millions)</u>		
		<u>TY 2019</u>	<u>TY 2020</u>	<u>TY 2019</u>	<u>TY 2020</u>	<u>Total</u>
Head of Household	216,300	\$500	\$250	\$108.1	\$54.1	\$162.2
Married Filing Jointly	72,100	500	250	36.0	18.0	54.1
Single	112,200	300	150	33.6	16.8	50.4
<b>Total</b>	<b>400,600</b>	<b>\$444</b>	<b>\$222</b>	<b>\$177.8</b>	<b>\$88.9</b>	<b>\$266.7</b>

Note: Numbers may not sum to total due to rounding.

Source: Comptroller’s Office; Department of Legislative Services

Some taxpayers will receive payments in only one tax year, while others will receive both payments. DLS estimates that between 400,000 and 500,000 households will receive at least one payment. About one-half of these households will file as a head of household, and about three-quarters will have a dependent child. Further, the vast majority of taxpayers are expected to have a federal adjusted gross income of less than \$50,000, and about 40% will have incomes of \$25,000 or less.

**State Expenditures:** The Comptroller’s Office provided a preliminary estimate that it will incur \$330,000 in general fund expenditures in fiscal 2022 to issue economic impact payments and implement other provisions of the bill. General fund expenditure increases may also occur in fiscal 2021.

**State Income Tax Exemption for Unemployment Insurance Benefits**

**State Revenues:** Beginning with tax year 2020, the bill exempts from the State income tax the UI benefits received by an individual. As a result, general fund revenues decrease by \$217.2 million in fiscal 2021, \$56.6 million in fiscal 2022, and about \$20.0 million annually thereafter, as shown in **Exhibit 4**. The Governor’s proposed fiscal 2022 budget assumes a reduction of \$50.0 million in fiscal 2021, which reflects the estimated general fund revenue collected from UI benefits incorporated in the December 2020 BRE forecast, and a \$20.0 million general fund reduction in fiscal 2022 due to the proposed exemption.

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**Exhibit 4**  
**State and Local Revenue Impact**  
**Unemployment Insurance Benefit Exemption**  
**(\$ in Millions)**

	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>
State	(\$217.2)	(\$56.6)	(\$22.4)	(\$21.8)	(\$20.4)
Local	(164.7)	(42.9)	(17.0)	(16.5)	(15.5)
<b>Total Revenues</b>	<b>(\$381.9)</b>	<b>(\$99.5)</b>	<b>(\$39.4)</b>	<b>(\$38.3)</b>	<b>(\$35.9)</b>

Source: Maryland Department of Labor; Department of Legislative Services

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The Maryland Department of Labor (MDL) reports the department issued in calendar 2020 a total of \$9.6 billion in UI benefits. DLS projects a total of \$2.7 billion in benefits will be paid in calendar 2021, \$1.0 billion in calendar 2022, and decreasing amounts thereafter.

This estimate reflects the termination of enhanced federally funded benefits in the first quarter of 2021. To the extent that federal legislation extends these benefits, general fund losses will be significantly higher than estimated in fiscal 2022 and any subsequent year in which the benefits are available. The estimate also assumes that 40% of UI benefits are subject to income tax withholding by taxpayers. Based on the recent amount of total UI payments issued by MDL and amounts reported by Maryland taxpayers, it is assumed that approximately one-half of all benefits are reported on a taxable State income tax return.

### **Enhanced Sales and Use Tax Vendor Credit**

**State Revenues:** The bill authorizes an eligible vendor to retain an increased sales and use tax vendor credit for the four consecutive months following the enactment of the bill. As a result, general fund revenues decrease by \$61.9 million for each of the four months following the enactment of the bill. Accordingly, general fund revenues decrease by \$247.8 million in fiscal 2021. The Governor's proposed fiscal 2022 budget assumes a \$300.0 million general fund reduction in fiscal 2021 due to the proposed enhanced credit.

This estimate is based on an analysis of sales and use tax returns filed in the third quarter of 2019 and corresponding sales and use tax payments:

- 90% of vendors remit less than \$6,000 of sales and use taxes each month;
- 50% of vendors remit less than \$300 of sales and use taxes each month; and
- the average credit received under the bill is approximately \$924 per month or approximately \$3,700 over the four-month period.

The Comptroller's Office estimates that approximately 67,000 taxpayers will benefit from the proposed enhancement.

### **Excluding Fiscal 2020 and 2021 when Determining Employer Unemployment Insurance Taxes**

**State Revenues:** Generally, based on the significant volume of UI claims beginning in March 2020, the bill reduces employer benefit ratios and, therefore, employer taxes/UITF revenues, from what they otherwise would have been, from fiscal 2022 through 2025.

More specifically, under the bill, fiscal 2020 and 2021 are fully excluded from the periods of time during which one or both years would be used in determining employer benefit ratios for State UI taxes. The period for each year under current law (plus the recent

executive order) and the bill is shown below in **Exhibit 5**. The differences apply to State UI taxes in 2022 through 2024, with revenue effects from fiscal 2022 through 2025.

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**Exhibit 5**  
**Rating Periods for Employer Unemployment Insurance Tax Years**  
**Current Law and the Bill**

<b>Tax Year</b>	<b>Rating Period Current Law with Executive Order Effective for 2021 Only*</b>	<b>Rating Period The Bill</b>
<b>2021</b>	FY 19, FY 18, FY 17	FY 19, FY 18, FY 17
<b>2022</b>	FY 21, FY 20, FY 19	FY 19, FY 18, FY 17
<b>2023</b>	FY 22, FY 21, FY 20	FY 22, FY 19, FY 18
<b>2024</b>	FY 23, FY 22, FY 21	FY 23, FY 22, FY 19
<b>2025</b>	FY 24, FY 23, FY 22	FY 24, FY 23, FY 22

Note: This analysis assumes that the executive order freezing benefit ratios at their 2020 levels will only apply to employer taxes in 2021 (*i.e.*, the state of emergency ends before 2022 taxes are set). To the extent that the executive order applies to future years, the net effect of the bill on Unemployment Insurance Trust Fund revenues is less. Absent the executive order, 2021 taxes would be determined based on fiscal 2018 through 2020.

Source: Department of Legislative Services

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Based on estimates in a recent consultant report commissioned by MDL that estimated costs for a similar scenario, and accounting for a calendar-to-fiscal year conversion, UITF revenues decrease by \$109.2 million in fiscal 2022, \$218.3 million in fiscal 2023, \$163.6 million in fiscal 2024, and \$54.4 million in fiscal 2025. For context, Table F has historically generated \$0.8 billion to \$1.1 billion in tax revenue in a typical year.

This foregone revenue is assumed to result in increased borrowing and associated general fund expenditures for interest payments, as discussed below.

DLS also notes that, ultimately, the UITF balance determines the tax tables; the cumulative effect of the bill’s revenue reductions may result in a delayed return to a tax table with lower overall rates. In other words, the bill may result in employers paying higher tax rates in a future year. When that might happen is unknown but likely several years from now.

**State Expenditures:** Due to the ongoing high claims volume and UITF’s likely imminent need to borrow funds from the federal government in order to continue making payments

to claimants, the bill's UITF revenue reduction is assumed to represent an increase in net borrowing. Interest on balances owed to the federal government must be paid back – with State general funds or some other source, not UITF – at the end of each September. The current interest rate on federal loans for UI programs is 2.277%, although that is deferred through mid-March 2021 under the December stimulus bill.

Therefore, assuming the current rate is applicable to borrowing in 2022, 2023, and 2024, general fund expenditures for the required interest payments increase by \$2.5 million in fiscal 2023, \$7.5 million in fiscal 2024, and \$11.5 million in fiscal 2025. Interest payments are larger each year because of accumulated principal.

This assumes that the federal government will charge interest on the loan(s) and that the full amount of borrowed principal is paid back concurrent with the third interest payment in November 2024 (as a nonbudgeted UITF expenditure in fiscal 2025). If the federal government extends interest forbearance and/or the principal is paid back earlier or later, UITF expenditures and interest costs will vary accordingly.

### **State Income Tax Exemption for Coronavirus Loan Forgiveness and Grants**

**State Revenues:** In tax year 2020 and 2021, the bill exempts from the State income tax certain federal, State, and local grants and forgiven loans that were provided to a person for the purpose of assisting with the economic hardships resulting from the coronavirus pandemic.

Generally, this provision will exempt (1) federal grants and loans which are not otherwise exempt under federal law and (2) State and local grants and loans which are not provided by federal funds under a program that is exempt from federal taxation. The total amount of these government loans and grants that will be issued in calendar 2020 and 2021 is unknown. In addition, the Comptroller will issue guidance regarding eligibility for the State income tax exemption.

Based on the amount of State-funded Commerce coronavirus relief loan and grant programs and certain federal taxable payments issued in the State, general fund revenues decrease by *at least* \$35.9 million in fiscal 2021. Assuming the same level of assistance is provided in calendar 2021, general fund revenues decrease by *at least* \$35.9 million in fiscal 2022, as shown in **Exhibit 6**.

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**Exhibit 6**  
**Minimum State and Local Revenue Impact**  
**Coronavirus Relief Payment Exemption**  
**Fiscal 2021-2025**  
**(\$ in Millions)**

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
State	(\$35.9)	(\$35.9)	\$0.0	\$0.0	\$0.0
Local	(22.7)	(22.7)	(0.0)	0.0	0.0
<b>Total Revenues</b>	<b>(\$58.6)</b>	<b>(\$58.6)</b>	<b>(\$0.0)</b>	<b>\$0.0</b>	<b>\$0.0</b>

Source: Department of Commerce; Comptroller’s Office; Department of Legislative Services

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**Equity Participation Investment Financing Program Grants**

**State Revenues:** The bill authorizes Commerce to forgive up to \$50,000 of an EPIP small business loan, if the loan was provided in 2021 and 2022 in order to relieve the adverse effects of the coronavirus pandemic. As a result, Commerce special fund revenues decrease by \$750,000 in fiscal 2022, \$1.2 million annually in fiscal 2023 through 2026, and \$450,000 in fiscal 2027.

**Fiscal 2021 Revenue Transfers and Authorized Spending**

**State Revenues and Expenditures:** The bill authorizes the Governor to transfer \$320.0 million from the Rainy Day Fund and \$100.0 million from the local income tax reserve account to the new Recovery Now Fund for specified purposes related to providing economic and financial relief due to the COVID-19 pandemic. In addition, the Governor may also transfer \$100.0 million from the Blueprint for Maryland’s Future Fund to MSDE to facilitate delivering in-person classroom instruction and for summer school instruction. As a result, nonbudgeted expenditures increase by \$100.0 million in fiscal 2021 due to the transfer of money from the local income tax reserve account with a corresponding increase in special fund Recovery Now Fund revenues (the \$320.0 million in Rainy Day Fund monies is merely shifting from one special fund to another, and its use is accelerated). Special fund expenditures increase by \$520.0 million in fiscal 2021 due to the additional educational spending and other specified purposes. It is assumed that the \$100.0 million in spending from the Blueprint for Maryland’s Future Fund would have occurred in subsequent years (and potentially for different purposes); however, due to the transfer, less funding is available for future spending.

The transfer of \$320.0 million from the Rainy Day Fund to the Recovery Now Fund leaves a balance equal to 3.01% of estimated general fund revenues for fiscal 2021. In the absence of the transfer authorized by the bill, however, the balance in the Rainy Day Fund would still have been below the 7.5% threshold, necessitating an appropriation of \$50.0 million in fiscal 2023 and each year thereafter until it reached the 7.5% threshold (approximately seven years). The transfer, therefore, has no effect in the near term, but extends the required annual appropriation of \$50.0 million to the Rainy Day Fund beyond the expected seven years absent the transfer.

The local income tax reserve account is used to meet the State’s liability for local income taxes according to generally accepted accounting principles. Transferring \$100.0 million from the account creates an additional unfunded liability on the State’s balance sheet but does not affect spending from that account.

**Local Fiscal Effect:** Local income tax revenues decrease due to the State income tax exemption for UI benefits and coronavirus relief payments. As a result, overall local income tax revenues decrease by \$187.4 million in fiscal 2021 and \$15.5 million in fiscal 2025, as shown in **Exhibit 7**. In addition, **Appendix 3 – Unemployment Insurance Exemption Local Revenue Impact** provides, by county, the estimated local income tax revenue loss resulting from that provision.

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**Exhibit 7**  
**Minimum Local Revenue Impact**  
**Unemployment Insurance and Coronavirus Relief Payment Exemptions**  
**(\$ in Millions)**

	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>	<u><b>FY 2024</b></u>	<u><b>FY 2025</b></u>
Unemployment Insurance	(\$164.7)	(\$42.9)	(\$17.0)	(\$16.5)	(\$15.5)
Coronavirus Relief Payments	(22.7)	(22.7)	0.0	0.0	0.0
<b>Total Revenues</b>	<b>(\$187.4)</b>	<b>(\$65.6)</b>	<b>(\$17.0)</b>	<b>(\$16.5)</b>	<b>(\$15.5)</b>

Source: Maryland Department of Labor; Comptroller’s Office; Department of Commerce; Department of Legislative Services

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Local highway user revenues distributed to Baltimore City, counties, and municipalities decrease to the extent coronavirus relief payments are exempted from the corporate income tax.



Local revenues and expenditures increase in fiscal 2021 due to the fund transfers and spending authorized by the bill.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 612 (The Speaker)(By Request - Administration) - Ways and Means and Economic Matters.

**Information Source(s):** Department of Commerce; Comptroller's Office; Maryland Department of Labor; Department of Legislative Services

**Fiscal Note History:** First Reader - January 25, 2021  
rh/jrb Third Reader - February 8, 2021  
Revised - Amendment(s) - February 8, 2021  
Revised - Clarification - February 8, 2021

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## Appendix 1 – Fiscal 2021 Recovery Now Fund Spending

<u>Program</u>	<u>Purpose</u>	<u>Amount</u>
Temporary Disability Assistance Program	Restore/Increase Assistance Payments	\$22,000,000
Maryland Emergency Management Agency	Volunteer Fire Department and Rescue Squad Grants	13,000,000
Office of Grants Management	Maryland Food Bank and Capital Area Foodbank	10,000,000
Office of Home Energy Programs	Household Assistance – Utility Arrearages	9,000,000
Maryland Community Health Resource Commission	Community Service Provider Grants	5,000,000
Neighborhood Revitalization	Local Government Grants for Nonprofits	30,000,000
Maryland State Arts Council	Emergency Artist, Art District, and Art Organization Grants	10,000,000
Maryland Economic Development Assistance Authority and Fund	Business Grants for Certain Service Industries	40,000,000
Maryland Economic Development Assistance Authority and Fund	Local Government Grants for Food and Drink Establishments	26,000,000
Maryland Economic Development Assistance Authority and Fund	Local Government Grants for Hotels/Hospitality Establishments	10,000,000
Neighborhood Revitalization	Live Entertainment Venue Grants	10,000,000
Maryland Small, Minority, and Women-Owned Businesses Account	Small, Minority, and Women-Owned Business Assistance	10,000,000
Workforce Development	Local Workforce Development Board Funding	10,000,000
Technology Development, Transfer, and Commercialization	Rural and Agricultural Business Grants	1,500,000
DHCD – Office of the Secretary	Rural Broadband Program Grants	5,000,000
Maryland Agricultural and Resource-Based Industry Development Corporation	Rural and Agricultural Business Grants	3,500,000
Neighborhood Revitalization	Establish Main Street Economies Grant Program	5,000,000
Maryland Economic Development Assistance Authority and Fund	Business Online Sales Network and Teleworking Grants	3,000,000
Maryland Tourism Development Board	Maryland Small Businesses for Tourism Marketing	1,000,000
Revenue Administration Division Insurance	Unemployment Insurance Adjudication Applicant Grants	40,000,000
Office of Unemployment Insurance	Additional Unemployment Insurance Caseworkers	3,000,000
Office of Unemployment Insurance	Work Sharing Unemployment Insurance Marketing Campaign	1,000,000
MDOT – Bus Operations	Restore Transit Services Funding	30,000,000
MDOT – State System Maintenance	Restore Highway Maintenance Funding	25,000,000

<b><u>Program</u></b>	<b><u>Purpose</u></b>	<b><u>Amount</u></b>
Maryland Economic Development Assistance Authority and Fund	Private Commuter and Shuttle Bus Operator Grants	8,000,000
MDH – Community Services	Community Mental Health and Substance Use Disorder Services	20,000,000
Maryland Community Health Resource Commission	Health Equity Grants	14,000,000
Office of Preparedness and Response	County Vaccine Outreach/Training Grants, Mobile Vaccination	10,000,000
Office of Preparedness and Response	Outreach, Recruitment, and Training	1,000,000
DHCD – Rental Services	Emergency Housing Grants	25,000,000
Administrative Office of the Courts	Maryland Legal Services Corporation – Eviction Assistance	3,000,000
Aid to Community Colleges and Baltimore City Community College	Job Skills/Training Funding	15,000,000
Juvenile Services Education Program	Juvenile Services System Educational Services	1,000,000
<b>Total</b>		<b>\$420,000,000</b>

DHCD: Department of Housing and Community Development

MDH: Maryland Department of Health

MDOT: Maryland Department of Transportation

Note: Funding is listed as in the bill.

Source: Department of Legislative Services

## Appendix 2 – Fiscal Impact of Legislation

Fiscal 2021-2025

(\$ in Millions)

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
<b><u>Revenues</u></b>					
<b>General Fund Revenues</b>					
Economic Impact Payments	(\$266.7)	\$0.0	\$0.0	\$0.0	\$0.0
Unemployment Insurance	(217.2)	(56.6)	(22.4)	(21.8)	(20.4)
Sales Tax Vendor Credit	(247.8)	0.0	0.0	0.0	0.0
Coronavirus Relief Payments	(35.9)	(35.9)	0.0	0.0	0.0
<b>Total GF</b>	<b>(\$767.6)</b>	<b>(\$92.5)</b>	<b>(\$22.4)</b>	<b>(\$21.8)</b>	<b>(\$20.4)</b>
<b>Special Fund Revenues</b>					
Local Reserve Account Transfer	\$100.0	\$0.0	\$0.0	\$0.0	\$0.0
Commerce – Loan Forgiveness	0.0	(0.8)	(1.2)	(1.2)	(1.2)
<b>Total SF</b>	<b>\$100.0</b>	<b>(\$0.8)</b>	<b>(\$1.2)</b>	<b>(\$1.2)</b>	<b>(\$1.2)</b>
<b>Total Revenues</b>	<b>(\$667.6)</b>	<b>(\$93.3)</b>	<b>(\$23.6)</b>	<b>(\$23.0)</b>	<b>(\$21.6)</b>
<b><u>Expenditures</u></b>					
<b>General Fund Expenditures</b>					
Comptroller’s Office	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0
Labor – Interest Payments	0.0	0.0	2.5	7.5	11.5
<b>Total GF</b>	<b>\$0.0</b>	<b>\$0.3</b>	<b>\$2.5</b>	<b>\$7.5</b>	<b>\$11.5</b>
<b>Special Fund Expenditures</b>					
Education	\$100.0	\$0.0	\$0.0	\$0.0	\$0.0
Recovery Now Spending	420.0	0.0	0.0	0.0	0.0
<b>Total SF</b>	<b>\$520.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Total Expenditures</b>	<b>\$520.0</b>	<b>\$0.3</b>	<b>\$2.5</b>	<b>\$7.5</b>	<b>\$11.5</b>
<b>Net Effect</b>	<b>(\$1,187.6)</b>	<b>(\$93.6)</b>	<b>(\$26.1)</b>	<b>(\$30.5)</b>	<b>(\$33.1)</b>

Note: Does not include impacts on nonbudgeted funds.

Source: Department of Commerce; Maryland Department of Labor; Comptroller’s Office; Department of Legislative Services

**Appendix 3 – Unemployment Insurance Exemption  
Local Revenue Impact  
Fiscal 2021-2025  
(\$ in Millions)**

<b><u>County</u></b>	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>
Allegany	(\$1.7)	(\$0.4)	(\$0.2)	(\$0.2)	(\$0.2)
Anne Arundel	(13.5)	(3.5)	(1.4)	(1.4)	(1.3)
Baltimore	(28.4)	(7.4)	(2.9)	(2.8)	(2.7)
Baltimore City	(22.2)	(5.8)	(2.3)	(2.2)	(2.1)
Calvert	(1.9)	(0.5)	(0.2)	(0.2)	(0.2)
Caroline	(0.8)	(0.2)	(0.1)	(0.1)	(0.1)
Carroll	(3.6)	(0.9)	(0.4)	(0.4)	(0.3)
Cecil	(2.0)	(0.5)	(0.2)	(0.2)	(0.2)
Charles	(4.0)	(1.0)	(0.4)	(0.4)	(0.4)
Dorchester	(1.0)	(0.2)	(0.1)	(0.1)	(0.1)
Frederick	(5.6)	(1.5)	(0.6)	(0.6)	(0.5)
Garrett	(0.6)	(0.1)	(0.1)	(0.1)	(0.1)
Harford	(6.6)	(1.7)	(0.7)	(0.7)	(0.6)
Howard	(8.0)	(2.1)	(0.8)	(0.8)	(0.8)
Kent	(0.4)	(0.1)	(0.0)	(0.0)	(0.0)
Montgomery	(25.0)	(6.5)	(2.6)	(2.5)	(2.4)
Prince George's	(27.0)	(7.0)	(2.8)	(2.7)	(2.5)
Queen Anne's	(1.2)	(0.3)	(0.1)	(0.1)	(0.1)
Somerset	(0.6)	(0.2)	(0.1)	(0.1)	(0.1)
St. Mary's	(2.1)	(0.6)	(0.2)	(0.2)	(0.2)
Talbot	(0.7)	(0.2)	(0.1)	(0.1)	(0.1)
Washington	(3.9)	(1.0)	(0.4)	(0.4)	(0.4)
Wicomico	(3.0)	(0.8)	(0.3)	(0.3)	(0.3)
Worcester	(1.3)	(0.4)	(0.1)	(0.1)	(0.1)
<b>Total</b>	<b>(\$164.7)</b>	<b>(\$42.9)</b>	<b>(\$17.0)</b>	<b>(\$16.5)</b>	<b>(\$15.5)</b>

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Labor; Comptroller's Office; Department of Legislative Services

## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families (RELIEF) Act

BILL NUMBER: SB 496/HB 612

PREPARED BY: Governor's Legislative Office

### PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

**OR**

WILL HAVE A MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

### PART B. ECONOMIC IMPACT ANALYSIS