SB 496

Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Enrolled - 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

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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 $306.0 million from the Revenue Stabilization Account to provide financial assistance to individuals, businesses, and nonprofit organizations and funding for specified State agencies and local jurisdictions.

Fiscal Summary

State Effect: General fund revenues decrease by $564.8 million in FY 2021 and $244.4 million in FY 2022; the FY 2022 budget assumes lesser reductions – $394.3 million and $190.4 million, respectively. Special fund revenues decrease by $0.8 million in FY 2022 and $1.2 million annually thereafter through FY 2026, with a lesser impact the following year. General fund, special fund, and federal fund expenditures increase by a total of $536.8 million in FY 2021 due to economic impact payments and for the authorized spending purposes. The FY 2022 budget reflects $230.8 million in spending due to these provisions. Nonbudgeted revenues for the Unemployment Insurance Trust Fund (UITF) are assumed to decrease in FY 2021 through 2024.

($ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	($564.8)	($244.4)	($162.3)	$0	$0
SF Revenue	$0	($0.8)	($1.2)	($1.2)	($1.2)
NonBud Rev.	(-)	(-)	(-)	(-)	$0
GF Expenditure	$0	$0.6	$0	$0	$0
FF Expenditure	$53.0	$0	$0	$0	$0
GF/FF Exp.	$177.8	$0	$0	$0	$0
SF/FF Exp.	$306.0	$0	$0	$0	$0
Net Effect	($1,101.6)	($245.7)	($163.5)	($1.2)	($1.2)

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

Local Effect: Local income tax revenues decrease by $162.7 million in FY 2021 and $59.2 million in FY 2022. 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. Montgomery County expenditures for its earned income credit program may increase in FY 2022 through 2024.

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.

Analysis

Bill Summary: The bill:

- provides up to $500 in economic impact payments to a resident taxpayer who claimed the State earned income credit in tax year 2019;
- enhances the value of the State refundable earned income credit in tax years 2020 through 2022;
- exempts from the State income tax in tax years 2020 and 2021 certain unemployment insurance (UI) benefits received by an individual whose income does not exceed specified amounts;
- authorizes certain businesses to retain an increased sales and use tax vendor credit;
- uses an employer's pre-pandemic UI claims history for purposes of determining UI tax rates, if it results in a lower UI tax rate, through the second July 1 after the COVID-19 state of emergency ends (this provision applies beginning with 2022 taxes and terminates June 30, 2025);
- authorizes small employers to defer payment of UI taxes or reimbursement payments, as applicable, owed in 2021 until the final quarterly payment for the year is due, and authorizes the Secretary of Labor to offer similar deferrals in 2022 (this provision applies only prospectively and terminates June 30, 2023);
- exempts from the State income tax certain coronavirus relief payments;
- authorizes the Department of Commerce to convert certain business loans into grants;
- authorizes the Comptroller to issue county grants from the local income tax reserve account if certain conditions are met; and
- establishes reporting requirements for the Comptroller and Department of Budget and Management (DBM).

The bill also authorizes the Governor, in fiscal 2021, to transfer $306.0 million from the Revenue Stabilization Account (known as the Rainy Day Fund) to a newly established Recovery Now fund to provide financial assistance to individuals, businesses, and nonprofit organizations and funding for specified State agencies. In addition, the bill restricts the use and authorizes the transfer to the Public Service Commission (PSC) of $53.0 million in specified funds from the Strategic Energy Investment Fund (SEIF) for utility arrearages in fiscal 2021. The bill expresses legislative intent that, to the extent practicable, the funds authorized be distributed proportionally by population across the State and if federal funds become available for any purpose authorized by the bill, the federal funds must be used to supplant and not supplement the spending. 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 resident taxpayer who claimed a State earned income credit in tax year 2019. **Exhibit 1** shows the economic impact payments by taxpayer filing status.

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.

Exhibit 1
Economic Impact Payments

Individual	$300
Married Filing Jointly*	500

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

Source: Department of Legislative Services

State Earned Income Credit

In tax years 2020 through 2022, the bill expands the State refundable earned income credit program. The value of the refund for qualified individuals increases from 28% to 45% of the federal earned income tax credit, minus any pre-credit State income tax liability. For an individual without a qualifying child, the value of the credit is increased to 100% of the federal credit, subject to a maximum of $530. A taxpayer will claim this fully refundable credit instead of the nonrefundable and refundable State earned income credits provided to other taxpayers.

The Comptroller must conduct a tax year 2020 eligibility awareness campaign encouraging eligible individuals to claim the federal and State credits.

State Income Tax Exemption for Unemployment Insurance Benefits

In tax years 2020 and 2021, the bill exempts from the State income tax the UI benefits received by an individual if (1) the benefits were paid by the Maryland Department of Labor (MDL) or by a state with which the State has a reciprocal taxation agreement (currently Pennsylvania, Virginia, West Virginia, and the District of Columbia). In order to qualify, a taxpayer must have a federal adjusted gross income of $75,000 or less ($100,000 if married filing jointly).

Enhanced Sales and Use Tax Credit for Certain Vendors

The bill authorizes eligible vendors to retain an increased vendor tax credit for the three 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.

Unemployment Insurance Employer Relief

For the period beginning March 5, 2020, through the second July 1 after the expiration of the COVID-19 state of emergency, "computation date" means July 1, 2019, if that date results in a lower rate of contribution (*i.e.*, UI tax rate). This provision applies beginning with 2022 taxes and terminates June 30, 2025.

For calendar 2021, an employer with fewer than 50 employees may elect to defer submitting contribution and employment reports for the calendar quarters ending March 31, June 30, and September 30. An employer that elects to defer must submit the report by the December 31 quarter's due date (January 31, 2022). A reimbursing employer with fewer than 50 employees is similarly allowed to defer the payment of quarterly bills in 2021. The Secretary of Labor may authorize similar deferrals for taxable and reimbursing employers in 2022. This provision terminates June 30, 2023.

DLS notes that, while all small businesses that pay UI taxes benefit from the potential deferral, not all small businesses do. Some small businesses, such as sole proprietorships, do not pay UI taxes. The deferral also benefits small nonprofits, which are not small businesses by definition. DLS further notes that MDL allowed for the deferral of eligible UI taxes and reimbursements under the provisions in this bill; however, subsequent legislation (Chapters 47 and 48 of 2021) modified the provisions to still require the submission of the reports.

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 provide to the Comptroller specified information regarding relief payments.

Equity Participation Investment Program Grants

The bill authorizes Commerce to forgive up to $50,000 of a loan 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.

Strategic Energy Investment Fund Transfers for Utility Arrearages

In addition to $30.0 million in funding provided through the Recovery Now Fund in this bill, $53.0 million in specified SEIF funds are restricted and authorized to be transferred to PSC for utility arrearages in fiscal 2021. Of that amount, $23.0 million is from the money derived from the AltaGas Ltd. and WGL Holdings, Inc. merger and $30.0 million is from among all the unappropriated allocations of Regional Greenhouse Gas Initiative (RGGI) revenue. Funds must be prioritized as specified, starting with the elimination of all arrearages for households that have qualified for other specified energy assistance in the past four years.

Fiscal 2021 Transfers to the Recovery Now Fund and Related Spending

The bill establishes the Recovery Now Fund, administered by 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 $306.0 million from the Rainy Day Fund. The transferred funds may be used as specified to provide (1) financial assistance to individuals, businesses, and nonprofit organizations and (2) funding for specified State agencies and local jurisdictions. **Appendix 1** provides more detail on the funding provided to each program. Except as specified, any balance remaining in the fund at the end of fiscal 2021 reverts to the general fund. Every two weeks following the enactment of the bill, DBM must report to the General Assembly specified information about distribution of the funds and how they were used.

The Comptroller is authorized to distribute to a county a grant from the local income tax reserve account in an amount equal to the difference between a county's audited fiscal 2021 unrestricted fund balance and the amount necessary to bring the unrestricted fund balance to 5% of the county's fiscal 2021 general fund revenues. A county may not receive a grant if federal legislation enacted after February 15, 2021, directs revenues to the county in excess of 5% of the fiscal 2021 county general fund revenues.

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.

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.

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.

Taxation of Unemployment Insurance Benefits

Prior to tax year 2020, UI benefits received by an individual were required to be included as income and generally subject to federal and State taxation. The American Rescue Plan Act of 2021, which was signed into law on March 11, 2021, allows a taxpayer to exclude up to $10,200 of unemployment compensation received in tax year 2020 ($10,200 for each spouse if filing jointly). In order to qualify, a taxpayer must have adjusted gross income of less than $150,000.

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).

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.

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. For additional information on employer taxes, including the range of tax rates for each tax rate table, and the UI program in general, see the **Appendix – Unemployment Insurance**.

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.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 established SEIF primarily to contain revenue generated from the sale of carbon dioxide emission allowances under RGGI. The allocation of revenue has been altered several times in budget reconciliation legislation. The current allocation requires (1) at least 50% for energy assistance; (2) at least 20% for energy efficiency and conservation (at least one-half for low- and moderate-income programs); (3) at least 20% for renewable and clean energy, energy-related education and outreach, resiliency, and climate change programs; and (4) up to 10% but no more than $5.0 million for administrative expenses.

Financing through the Maryland Small Business Development Financing Authority

MSBDFA, 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.

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. After making specified distributions, 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.

State Fiscal Effect: The bill (1) provides up to $500 in economic impact payments to a resident taxpayer who claimed the State earned income tax credit in tax year 2019; (2) enhances in tax years 2020 through 2022 the value of the State refundable earned income credit; (3) exempts from the State income tax in tax years 2020 and 2021 certain UI benefits received by an individual whose income does not exceed specified amounts; (4) authorizes certain businesses to retain an increased sales and use tax vendor credit; (5) uses an employer's pre-pandemic UI claims history for purposes of determining UI tax rates under certain circumstances; (6) authorizes small employers to defer payment of UI taxes or reimbursement payments, as applicable, owed in 2021 until the final quarterly payment for the year is due, and authorizes the Secretary of Labor to offer similar deferrals in 2022; (7) exempts from the State income tax certain coronavirus relief payments; (8) authorizes Commerce to convert certain business loans into grants; (9) restricts the use of $53.0 million in specified SEIF funds for utility arrearages in fiscal 2021; and (10) authorizes in fiscal 2021 specified revenue transfers and spending.

As a result, the net effect on State finances (excluding UITF, which is nonbudgeted) is a decrease of $1.1 billion in fiscal 2021, $245.7 million in fiscal 2022, $163.5 million in fiscal 2023, $1.2 million in fiscal 2024, and $1.2 million in fiscal 2025. **Appendix 2 – Fiscal Impact of Legislation** details the fiscal impact of the provisions in fiscal 2021 through 2025. The fiscal 2022 budget assumes a general fund revenue reduction of $394.3 million in fiscal 2021 and $190.4 million in fiscal 2022. The fiscal 2022 budget also includes $230.8 million in additional fiscal 2021 spending for the purposes authorized by the bill. Each of the bill's impacts is discussed below.

Economic Impact Payments

State/Federal Expenditures: The bill requires the Comptroller to issue economic impact payments to residents who claimed the State earned income credit in tax year 2019. As a result, general fund expenditures may increase by $177.8 million in fiscal 2021. To the extent federal funds provided by the American Rescue Plan Act are used for this purpose, they are not available for other purposes and there is a corresponding decrease in general fund expenditures. **Exhibit 2** provides more detail on the payments.

Exhibit 2
Economic Impact Payments by Filing Status
Tax Year 2019

Filing Status	Returns	Per Return Payment	Total Payments ($ in Millions)
Head of Household	216,300	$500	$108.1
Married Filing Jointly	72,100	500	36.0
Single	112,200	300	33.6
Total	**400,600**	**$444**	**$177.8**

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

Source: Comptroller's Office; Department of Legislative Services

About one-half of these households are expected to file as a head of household, and about three-quarters 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 fiscal 2022 budget includes $550,000 in general fund expenditures for the Comptroller's Office to use contractual services to prepare and issue economic impact payments.

State Earned Income Credit

State Revenues: In tax years 2020 through 2022, the bill increases the value of the State refundable earned income credit and expands the credit for individuals without qualifying children. As a result, general fund revenues decrease by $158.5 million in fiscal 2021, $160.4 million in fiscal 2022, and $162.3 million in fiscal 2023.

State Income Tax Exemption for Unemployment Insurance Benefits

State Revenues: In tax years 2020 and 2021, the bill exempts from the State income tax certain UI benefits received by a taxpayer with federal adjusted gross income of $75,000 or less ($100,000 if married filing jointly). As a result, general fund revenues decrease by $184.6 million in fiscal 2021 and $48.1 million in fiscal 2022, as shown in **Exhibit 3**.

Exhibit 3
State and Local Revenue Impact
Unemployment Insurance Benefit Exemption
($ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State	($184.6)	($48.1)	$0.0	$0.0	$0.0
Local	(140.0)	(36.5)	0.0	0.0	0.0
Total Revenues	**($324.6)**	**($84.6)**	**$0.0**	**$0.0**	**$0.0**

Source: Maryland Department of Labor; Department of Legislative Services

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. The estimate 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 three consecutive months following the enactment of the bill. As a result, general fund revenues decrease by $61.9 million for each of the three months following the enactment of the bill. Accordingly, general fund revenues decrease by $185.8 million in fiscal 2021.

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 $2,800 over the three-month period.

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

Excluding Pandemic Claims when Determining Employer Unemployment Insurance Taxes

State Revenues: Assuming the state of emergency ends prior to July 1, 2021, this provision reduces employer benefit ratios and, therefore, employer taxes/UITF revenues in 2022 and 2023, with effects from mid-fiscal 2022 through mid-fiscal 2024. The rating period for each tax year under current law (plus the recent executive order) and the bill is shown below in **Exhibit 4**.

Exhibit 4
Rating Periods for Employer Unemployment Insurance Tax Years
Current Law and the Bill

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

Note: This analysis assumes that the state of emergency ends prior to July 1, 2021, and as such (1) the executive order freezing benefit ratios at their 2020 levels will only apply to employer taxes in 2021 and (2) the bill affects the rating periods for UI taxes in 2022 and 2023. If the state of emergency ends after July 1, 2021, and the executive order remains in effect, then the bill generally affects later tax years instead.

Source: Department of Legislative Services

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 up to $100 million in fiscal 2022, up to $250 million in fiscal 2023, and up to $150 million in fiscal 2024. There is significant uncertainty in these estimates, and the effect on revenues is mitigated to some extent by Chapter 73 of 2021, which moves the State to Table C in 2022 and 2023 when it otherwise likely would have been in Table F. For context, Table F has historically generated $0.8 billion to $1.1 billion in tax revenue in a typical year.

DLS 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, but no sooner than 2024.

State Expenditures: In light of Chapter 73 and a potential $1.1 billion infusion of federal funds into UITF, there should be no effect on UITF expenditures associated with this provision. Absent that cash infusion, the reduction in revenues due to the bill likely represents net borrowing, which would eventually need to be paid back, potentially with interest. Interest would be paid with general funds.

Deferral of UI Taxes and Reimbursements for Small Employers

State Revenues: Authorizing small employers to defer submitting quarterly 2021 UI taxes and reimbursements until the fourth quarter's due date (January 31, 2022) has no net effect on UITF revenues, as all amounts are still owed. Revenue decreases in fiscal 2021 should be offset by revenue increases in fiscal 2022. The same effect occurs if similar deferrals are authorized for taxable and reimbursing employers in 2022, with decreased fiscal 2022 revenues and increased fiscal 2023 revenues.

While the actual amount deferred in each quarter is ultimately unknown, for context, small employers account for approximately 25% of total payroll in the State – meaning that if UITF were otherwise expected to collect about $1.0 billion in 2021, up to $250 million could be deferred under the bill, and roughly half of that amount would be reallocated between fiscal years.

State Expenditures: MDL advises that administrative costs associated with these changes are approximately $80,000 and are an allowable federal expense. This estimate assumes existing federal funding is sufficient for implementation; if not, additional above-base federal funding will be provided.

In light of Chapter 73 and a potential $1.1 billion infusion of federal funds into UITF, there should be no further effect on UITF expenditures associated with this provision. Absent that cash infusion, the delay in revenues due could have increased borrowing costs to cover temporary cash flow needs, which would eventually need to be paid back, potentially with interest. Interest would be paid with general funds.

State Income Tax Exemption for Coronavirus Loan Forgiveness and Grants

State Revenues: In tax years 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.

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 5.**

Exhibit 5
Minimum State and Local Revenue Impact
Coronavirus Relief Payment Exemption
Fiscal 2021-2025
($ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State	($35.9)	($35.9)	$0.0	$0.0	$0.0
Local	(22.7)	(22.7)	(0.0)	0.0	0.0
Total Revenues	**($58.6)**	**($58.6)**	**($0.0)**	**$0.0**	**$0.0**

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

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.

Strategic Energy Investment Fund Transfers for Utility Arrearages

State Expenditures: While the bill restricts the use and authorizes the transfer to PSC of $53.0 million in SEIF funds in fiscal 2021, the bill also expresses the intent of the General Assembly that, if federal funds become available for such purposes, those funds be used to supplant, and not supplement, the SEIF funds. Federal funding is available and has been appropriated for these purposes. Accordingly, federal fund expenditures for PSC increase by $53.0 million in fiscal 2021 as the funding is directed to arrearage assistance programs run by electric and gas utilities, including cooperatives and municipal utilities, and prioritized as specified.

Fiscal 2021 Revenue Transfers and Authorized Spending

State Revenues and Expenditures: The bill authorizes the Governor to transfer $306.0 million from the Rainy Day Fund to the new Recovery Now Fund for specified purposes related to providing economic and financial relief due to the COVID-19 pandemic. Federal funding is available and will be appropriated by budget amendment for these purposes. As a result, special fund or federal fund (after a budget amendment is submitted) expenditures increase by $306.0 million in fiscal 2021 due to the additional specified purposes.

Local Fiscal Effect: Local income tax revenues decrease due to the State income tax exemptions for UI benefits and coronavirus relief payments. As a result, overall local income tax revenues decrease by $162.7 million in fiscal 2021 and $59.2 million in fiscal 2022, as shown in **Exhibit 6.**

Exhibit 6
Minimum Local Revenue Impact
Unemployment Insurance and Coronavirus Relief Payment Exemptions
($ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Unemployment Insurance	($140.0)	($36.5)	($0.0)	($0.0)	($0.0)
Coronavirus Relief Payments	(22.7)	(22.7)	0.0	0.0	0.0
Total Revenues	**($162.7)**	**($59.2)**	**($0.0)**	**($0.0)**	**($0.0)**

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

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.

Montgomery County has a local grant program based on the State's refundable earned income credit. Payments for this county grant are made in the fiscal year following the fiscal year in which the returns are filed. Accordingly, Montgomery County expenditures may increase in fiscal 2022 through 2024.

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
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Appendix 1 – Fiscal 2021 Recovery Now Fund Spending

Program	Purpose	Amount
Temporary Disability Assistance Program Assistance	Restore/Increase Payments	$22,000,000
Maryland Emergency Management Agency	Volunteer Fire Department and Rescue Squad Grants	4,000,000
Office of Grants Management	Maryland Food Bank and Capital Area Foodbank	10,000,000
Public Service Commission	Household Assistance - Utility Arrearages	30,000,000
Maryland Community Health Resource Commission	Community Service Provider Grants	5,000,000
Neighborhood Revitalization	Local Government Grants for Nonprofits	20,000,000
Maryland State Arts Council	Emergency Artist and Art District/Organization Grants	5,000,000
MEDAAF	Business Grants for Certain Service Industries	10,000,000
MEDAAF	Local Government Grants for Food and Drink Establishments	22,000,000
MEDAAF	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	7,000,000
Technology Development, Transfer, and Commercialization	Rural and Agricultural Business Grants	1,500,000
DHCD - Office of the Secretary	Rural Broadband Program Grants	2,000,000
MARBIDCO	Rural and Agricultural Business Grants	2,000,000
Neighborhood Revitalization	Main Street Grant Program	2,000,000
MEDAAF	Business Teleworking Grants	500,000
Maryland Tourism Development Board	Maryland Small Businesses for Tourism Marketing	1,000,000
Revenue Administration Division Insurance	Unemployment Insurance Adjudication Applicant Grants	32,000,000
Office of Unemployment Insurance	Additional Unemployment Insurance Staffing	3,000,000
Office of Unemployment Insurance	Work Share Unemployment Insurance Marketing Campaign	1,000,000
MDOT - Bus Operations	Restores Transit Services Funding	10,000,000
MDOT - State System Maintenance	Restores Highway Maintenance Funding	10,000,000
MEDAAF	Private Bus Operator and Locally Operated Transit System Grants	8,000,000
MDH - Community Services	Community Mental Health and Substance Abuse Services Grants	20,000,000

Program	Purpose	Amount
Maryland Community Health Resource Commission	Health Equity Grants	14,000,000
DHCD - Rental Services	Emergency Housing Grants	15,000,000
Administrative Office of the Courts	Maryland Legal Services Corporation - Eviction Assistance	3,000,000
Aid to Community Colleges and BCCC	Job Skills/Training Funding	10,000,000
Juvenile Services Education Program	Juvenile Services System Educational Services	1,000,000
Disparity Grants	Increase Grants to Prince George's, Dorchester, and Wicomico	5,000,000
Total		**$306,000,000**

BCCC: Baltimore City Community College
DHCD: Department of Housing and Community Development
MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation
MDH: Maryland Department of Health
MDOT: Maryland Department of Transportation
MEDAAF: Maryland Economic Development Assistance Authority and Fund

Note: The bill also (1) authorizes the Maryland Community Health Resource Commission to retain any funds allocated to it that remain unspent at the end of fiscal 2021 into fiscal 2022 (otherwise, unexpended monies revert to the general fund) and (2) expresses legislative intent that $1.5 million of federal vaccine funding be allocated by the Governor to the University of Maryland, Baltimore Campus to assist with mobile vaccine administration.

Source: Department of Legislative Services

Appendix 2 – Fiscal Impact of Legislation

Fiscal 2021-2025
($ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues					
General Fund Revenues					
Unemployment Insurance	($184.6)	($48.1)	0.0	0.0	0.0
Sales Tax Vendor Credit	(185.8)	0.0	0.0	0.0	0.0
Earned Income Credit	(158.5)	(160.4)	(162.3)	0.0	0.0
Coronavirus Relief Payments	(35.9)	(35.9)	0.0	0.0	0.0
Subtotal	***($564.8)***	***($244.4)***	***($162.3)***	***$0.0***	***$0.0***
Special Fund Revenues					
Commerce - Loan Forgiveness	0.0	($0.8)	($1.2)	($1.2)	($1.2)
Subtotal	***$0.0***	***($0.8)***	***($1.2)***	***($1.2)***	***($1.2)***
Total Revenues	**($564.8)**	**($245.2)**	**($163.5)**	**($1.2)**	**($1.2)**
Expenditures					
General Fund Expenditures					
Comptroller's Office	$0.0	$0.6	0.0	0.0	0.0
Subtotal	***$0.0***	***$0.6***	***$0.0***	***$0.0***	***$0.0***
State (GF/SF) and Federal Expenditures					
Recovery Now Spending	$306.0	0.0	0.0	0.0	0.0
Economic Impact Payments	177.8	0.0	0.0	0.0	0.0
Additional Utility Arrearage Funding	53.0	0.0	0.0	0.0	0.0
Subtotal	***$536.8***	***$0.0***	***$0.0***	***$0.0***	***$0.0***
Total Expenditures	**$536.8**	**$0.6**	**$0.0**	**$0.0**	**$0.0**
Net Effect	**($1,101.6)**	**($245.7)**	**($163.5)**	**($1.2)**	**($1.2)**

GF: General Fund
SF: Special Fund

Notes: Does not include impacts on nonbudgeted funds. Numbers may not sum to total due to rounding.

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

Appendix – Unemployment Insurance

Program Overview

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits of up to $430 per week to individuals who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Both the federal and state governments have responsibilities for UI programs. Generally, funding for the 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. Using federal tax revenues, the UI program is administered pursuant to state law by state employees. The Maryland Department of Labor's Division of Unemployment Insurance administers the State's UI program.

Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

Employer Contributions

Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse the Unemployment Insurance Trust Fund (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.

Exhibit 1 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. State UI taxes and reimbursements are typically due quarterly; however, Chapter 39 of 2021 (this bill) allows employers with fewer than 50 employees to defer 2021 State UI tax payments or reimbursements until January 31, 2022, and authorizes the Secretary of Labor to offer a similar deferment in 2022. The Act, in conjunction with a recent executive order, also generally prevents UI claims made during the COVID-19 pandemic from increasing an employer's taxes – although Table F, with its broadly higher rates, is in effect in 2021.

Exhibit 1
Tax Tables and Applicable Employer Tax Rates

Tax Table	As of Sept. 30, if the Trust Fund Balance, As a Percentage of Taxable Wages: Exceeds	Up to	Trust Fund Balance ($ in Millions): Exceeds	Up to	Then Next Year's Tax Rates Range from…: No Claims	Single Claim	Up to	Annual Tax Per Employee (Rate x $8,500): 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. Table A had been in effect since 2016.

Source: Department of Legislative Services

Benefit Payments

Generally, the weekly benefit amount a claimant is eligible for is based on the quarterly wages that the claimant was paid for covered employment in the calendar quarter of the claimant's base period in which those wages were highest. The base period is the first four of the last five completed calendar quarters immediately preceding the start of the benefit year, or, if the individual does not qualify under that definition, the four most recently completed calendar quarters immediately preceding the start of the benefit year.

Weekly benefit amounts range from $50 to $430 per week, based on earnings in the base period. There is also a dependent allowance of $8 per dependent, for up to five dependents, although the allowance cannot raise the weekly benefit amount above $430. The first $50 of any wages earned by an individual receiving UI benefits in a given week is disregarded for purposes of calculating the weekly benefit amount, after which the benefit payment is reduced dollar for dollar. These amounts do not adjust for inflation. Generally, during a benefit year, a claimant is entitled to 26 times the claimant's weekly benefit amount. During periods of high unemployment, extended benefits may also be available.

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

__X__ WILL HAVE A MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS