HB 717

Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 717 (Delegate J. Long, *et al.*)
Ways and Means

Income Tax - Credit for Employers Providing Parental Engagement Leave

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This bill creates a refundable credit against the State income tax for employers that provide parental engagement leave to qualified employees. The credit equals the qualified employee's hourly wage rate times the number of parental leave hours used by the employee during the taxable year, up to $800 per qualified employee. The Maryland State Department of Education (MSDE), in consultation with the Comptroller, must develop and make available a certification form to be used in claiming the credit. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease significantly, potentially by more than $4.3 million annually, beginning in FY 2025, as discussed below. To the extent credits are claimed against the corporate income tax, Higher Education Investment Fund (HEIF) revenues and Transportation Trust Fund (TTF) revenues and expenditures are also affected. General fund expenditures for the Comptroller's Office increase by $51,700 in FY 2025; future years reflect annualization and ongoing costs.

Local Effect: Local Highway User Revenues (HUR) decrease beginning in FY 2025 to the extent credits are claimed against the corporate income tax. Local expenditures are likely not affected, although local school boards may incur an administrative burden.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Parental engagement leave is leave away from work that is:

- provided at the discretion of an employer for the benefit of a qualified employee;
- used for allowing the qualified employee to attend school-related meetings or events at the school in which the student of the qualified employee is enrolled;
- established by written policy;
- at least 10 but not more than 20 hours of leave per qualified employee;
- paid at the same wage rate as the qualified employee normally earns; and
- supplemental to any other leave or benefits provided by the employer to the qualified employee.

A qualified employee is an individual who is the parent (or guardian with legal custody) of a school student and uses parental engagement leave in accordance with an employer policy. "School" is defined as a public or nonpublic elementary or secondary school in the State, including a charter school.

The bill specifies employer prohibitions of parental engagement leave and the certification process, which includes requiring qualified employees to obtain proof of attendance from the school principal and a county board member representing the public school or another administrator if it is a nonpublic school.

Current Law: No State income tax credit of this type exists for employers providing leave to attend school functions, but the State provides a tax credit to small businesses that provide paid sick and safe leave, the Small Business Relief Tax Credit. Chapter 571 of 2018 created a refundable credit against the State income tax for a small business that employs 14 or fewer employees and provides paid sick and safe leave in accordance with the Maryland Healthy Working Families Act to a qualified employee. A qualified employee is one who earns 250% or less of the annual federal poverty guidelines for a single-person household. The credit is the lesser of $500 for each qualified employee or the total amount of qualified employer benefits accrued by qualified employees. The Department of Commerce may issue tax certificates not exceeding $5 million annually.

State Revenues: General fund revenues may decrease significantly beginning in fiscal 2025 due to credits claimed against the State income tax. To the extent credits are claimed against the corporate income tax, a portion of foregone tax revenues will reduce HEIF and TTF revenues.

The Maryland Department of Planning projects school enrollment to be over 860,000 students in 2025. Assuming 2% of these students have a parent or guardian with an employer that participates in the program, the Department of Legislative Services (DLS) estimates that tax revenues decrease by $4.3 million annually, based on employees earning the median hourly rate of $24.72 and taking 10 hours of parental engagement leave.

However, DLS advises that there is considerable uncertainty regarding the number of businesses that will opt to provide parental engagement leave and claim the credit as there is little data available on this type of leave. Thus, the bill's precise impact on general fund, HEIF, and TTF revenues cannot be reliably estimated.

State Expenditures: The Comptroller's Office advises that three additional full-time revenue examiners are needed in order to review and verify tax credit claims under the bill. However, given the low utilization rate of the existing Small Business Relief Tax Credit, DLS assumes that the Comptroller's Office likely only needs one additional full-time revenue examiner. Thus, general fund expenditures increase by $51,712 in fiscal 2025, which reflects a 90-day start-up delay from the bill's July 1, 2024 effective date. This estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	$44,456
Operating Expenses	7,256
Total FY 2025 State Expenditures	**$51,712**

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses. To the extent that claims are higher than anticipated, the Comptroller's Office may need additional revenue examiners.

MSDE can create, in consultation with the Comptroller's Office, and distribute a certification form with existing budgeted resources.

A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local HUR). Thus, TTF expenditures for HUR grants to local governments decrease beginning in fiscal 2025, to the extent credits are claimed against the corporate income tax.

Local Revenues: Local HUR decrease beginning in fiscal 2025, to the extent credits are claimed against the corporate income tax.

Local Expenditures: Local school boards may incur an administrative burden from certifying and documenting parental or guardian involvement in school-related meetings and events.

Small Business Effect: Small businesses may be meaningfully affected to the extent that they are eligible to claim credits against the State income tax for providing parental engagement leave.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 64 (Senator Benson) - Budget and Taxation.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Baltimore City Public Schools; Montgomery County Public Schools; Prince George's County Public Schools; Maryland Department of Planning; Department of Legislative Services

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