HB 1389

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1389 (Delegate Shriver, et al.)
Ways and Means — Referred to Budget and Taxation

Tax Credit for Youth Apprenticeships and Other Structured Employer-Supervised Learning Programs

This amended bill creates a tax credit for youth apprenticeships and other structured employer-supervised learning programs.

This bill is effective July 1, 1996, and applies to all taxable years beginning after December 31, 1996 and before December 31, 2001.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated $1.6 million in FY 1998, and Transportation Trust Fund revenues could decline by $538,000. General fund expenditures could increase by $97,000 in FY 1998. Out-year estimates reflect credits for increasing numbers of students.

($ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	($1.6)	($2.3)	($3.4)	($3.6)	($3.7)
SF Revenues	(0.5)	(0.8)	(1.1)	(1.2)	(1.2)
GF Expenditures	0.1	0.0	0.0	0.0	0.0
Net Effect	($2.2)	($3.1)	($4.5)	($4.8)	($4.9)

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

Local Effect: Local revenues could decline by an estimated $161,400 in FY 1998. Expenditures would not be affected.

Fiscal Analysis

Bill Summary: This bill allows an employer to receive a tax credit of 25% of an employee's wages if the employer establishes and has approved by the Maryland State Department of Education (MSDE) a structured employer-supervised learning program. The credit is limited to $2,000 for each employee over the time the student is employed by the same business, if the student has been employed at least six months. The employee must be enrolled in a secondary or postsecondary school in the State, and be between 16 and 23 years old. The program shall provide learning in the workplace which is integrated with classroom instruction and results in academic credit. MSDE may delegate its authority to approve these programs to school-to-careers local labor market teams.

The credit is allowed for taxable years beginning on or before December 31, 2001, and may be claimed against the financial institution franchise tax, the public service company franchise tax, the individual and corporate income taxes, and the insurance premium tax. The credit is refundable.

State Revenues: General and special fund revenues could decline by an estimated $2.2 million in fiscal 1998, based on the following facts and assumptions:

- 3,400 secondary students participate in cooperative education programs which are eligible under this bill;
- these students are paid $5.49 per hour for 23 hours per week, 30 weeks per year;
- 1,325 postsecondary students have internships at for-profit businesses;
- these students are paid $8.68 per hour for 14 hours, 30 weeks per year;
- 220 postsecondary students participate in cooperative study programs;
- these students have an average annual salary of $23,100; and
- half of these students' programs will be approved.

All credits are assumed to be taken against the corporate income tax, and are assumed to be claimed 90% in the fiscal year following the tax year in which the credits were incurred, and 10% in the second fiscal year following the tax year.

In the first year, the 1,700 secondary students would each be paid $3,788, resulting in credits of $1.6 million. The 663 postsecondary interns would be paid $3,385, resulting in credits of $560,700. The 110 postsecondary students participating in cooperative study programs will each receive the full credit of $2,000, for total credits of $220,000. The credits attributable to the first year of work would total $2.4 million. About $2.2 million of this amount would be claimed in fiscal 1998, and $200,000 would be claimed in fiscal 1999.

An estimated 5,000 secondary students would participate in eligible programs in 1998, and an estimated 8,000 in 1999, 2000, and 2001. These increasing numbers are due to programs implemented through federal funding for school-to-work programs. The number of postsecondary students with internships is estimated to remain stable, and the number of postsecondary students for whom a credit can be claimed is assumed to be one-fourth of the above amount, since employers of these individuals would have reached the $2,000 limit. The table below shows the tax year and fiscal year impact of this program, assuming 3% growth in wages. Since the credits are available only until tax year 2001, fiscal 2003 would be the last year of fiscal impact.

Tax Credits for Youth Apprenticeships and Structured Employer-Supervised Learning Programs

Tax Year	Credits	FY 98	FY 99	FY 00	FY 01	FY 02
1997	$2,391,000	$2,151,900	$239,100			
1998	3,071,000		2,763,900	$307,100		
1999	4,669,000			4,202,100	$466,900	
2000	4,807,000				4,326,300	$480,700
2001	4,950,000					4,455,000
Total		2,151,900	3,003,000	4,509,200	4,793,200	4,935,700
	GF Loss	1,613,925	2,252,250	3,381,900	3,594,900	3,701,775
	TTF Loss	537,975	750,750	1,127,300	1,198,300	1,233,925

To the extent that the number of approved learning programs varies above or below these estimates, revenues would be affected accordingly.

State Expenditures: MSDE is required to adopt regulations to implement this program, including the approval process for youth apprenticeships or other structured employer-supervised learning programs. The department may delegate the approval authority, and has advised the Department of Fiscal Services that it plans to do so. Therefore, there would be no impact on State expenditures for administering the approval process.

The Office of the Comptroller will incur an estimated $97,000 of computer programming costs. The Department of Fiscal Services advises that if other legislation is also passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This could reduce computer programming costs associated with this bill and other income tax legislation.

Local Revenues: The Transportation Trust Fund is credited with 25% of corporate income tax revenues. Of this amount, 30% is distributed to local governments. Therefore, local governments could lose an estimated $161,400 in fiscal 1998, increasing to $370,200 in fiscal 2002.

If some credits are taken against the individual income tax, local revenues would not be affected because the credit is against the State tax only.

Information Source(s): Department of Education, Office of the Comptroller (Revenue Administration Division), Department of Fiscal Services

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