HB 898

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 898 (Delegate Franchot)
Ways and Means

Worker Retraining Tax Credit Act

This bill creates a tax credit program for "qualified training expenses" incurred by business entities for training provided to "qualified employees." The bill authorizes the Department of Labor, Licensing, and Regulation (DLLR) to administer the tax credit program, which includes establishing the amount of credit that may be claimed per employee subject to the parameters specified in the bill, determining the total credit allowed to any business entity, and approving employer-sponsored training programs for the tax credit. The sum of the tax credits approved for all employer-sponsored training programs may not exceed $2 million for each fiscal year. The credit may be carried forward for five years after the taxable year in which the expenses were incurred.

The bill applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: General fund and special fund revenues could decrease by an indeterminate but potentially significant amount. General fund expenditures could increase by $61,000 in FY 2000 and by about $30,000 annually, thereafter.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	-	-	-	-	-
GF Expenditures	$61,000	$29,200	$29,900	$30,700	$31,400
Net Effect	($61,000)	($29,200)	($29,900)	($30,700)	($31,400)

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

Local Effect: Local revenues could decrease by a minimal amount beginning in FY 2001. No effect on expenditures.

Small Business Effect: Minimal.

Fiscal Analysis

Bill Summary: The bill authorizes DLLR to establish the percentage of qualified expenses on which the credit will be based and the maximum credit that may be claimed per qualified employee within specified parameters. The bill specifies the upper limit as 100% of qualified training expenses incurred during the taxable year under a program approved for the credit, subject to a maximum credit of $2,500 per qualified employee who successfully completes the training and is paid at least 10% more after the training program. The lower limit is specified as the lessor of: (1) 100% of qualified training expenses; or (2) $1,000 for each qualified employee who successfully completes the training program and is paid at least 10% more after the training program.

In addition, the bill specifies the information that must be submitted with a proposal for an employer-sponsored training program in order to qualify for the tax credit. The bill also establishes guidelines for the department in reviewing and approving a proposal.

The credit may be claimed against the personal and corporate income tax, the financial institution franchise tax, the public service company franchise tax, the premium tax, and for tax-exempt organizations, against the income tax for unrelated business activities.

State Revenues: The bill specifies that total credits approved for the program may not exceed $2 million in any fiscal year. The actual credit claimed during a fiscal year, however, could be higher or lower than $2 million for the following reasons: (1) the credit may be carried forward for five years; (2) there would be some lag between the time the program is approved for the credit and the time employees have successfully completed the training and received a 10% increase in salary; and (3) the State's fiscal year differs from most businesses' tax year. Because of the lag discussed above, the impact of the credit will not be seen until fiscal 2001.

Qualified employees are: (1) those who are paid qualified wages under the Targeted Jobs Tax Credit program (now known as the Work Opportunity Tax Credit program); (2) those who are qualified employees for the Maryland Employment Opportunity Credit; and (3) residents of Silver Spring, Maryland. According to DLLR, as of September 1998, 12,636 certificates were issued for the Work Opportunity Tax Credit and from July 1997 to June 1998, 5,528 certificates were issued for the Maryland Employment Opportunity Credit.

If the credit is set at $1,000 per employee, the maximum number of employees who would qualify is 2,000. If the credit is $2,500 per employee, the maximum number of employees who would qualify is 800. Based on the number of certificates issued for the Work Opportunity Tax Credit program and the Maryland Employment Opportunity Credit, the program could potentially approve $2 million in credits each year.

If the credit is claimed against the corporate income tax, special fund revenues to the Transportation Trust Fund (TTF) would decrease since about 25% of corporate tax revenues are distributed to the TTF.

State Expenditures: General fund expenditures for the Department of Labor, Licensing, and Regulation could increase by $61,049 in fiscal 2000. The estimate reflects the cost of hiring one part-time contractual staff person to provide additional support to existing DLLR staff to administer the program and marketing expenses of $46,000 in the first year. It includes salaries, fringe benefits, and one-time start-up costs. Out-year estimates reflect 1% inflation in operating costs and ongoing marketing expenses.

Local Revenues: Local revenues would decrease for those credits claimed against the corporate income tax since a portion of the TTF is distributed to local governments.

Information Source(s): Department of Labor, Licensing, and Regulation; Comptroller of the Treasury (Bureau of Revenue Estimates); Department of Assessment and Taxation; Department of Legislative Services

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