

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 387 (Senator Hogan. *et al.*)

Budget and Taxation

Critical Skills Training - Income Tax Credit for Individuals and Employers

This bill creates an income tax credit for tuition and related expenses that are required for enrollment in an “approved industry certificate program” that provides training in skills that are in short supply and critical to Maryland’s Economic Development Strategy.

The bill takes effect July 1, 2000, and is applicable to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: Potentially significant general fund and special fund revenue decrease due to credits claimed against the individual and corporate income tax. No effect on expenditures.

Local Effect: Local revenues could decrease to the extent that credits are claimed against the corporate income tax. No effect on expenditures.

Small Business Effect: Minimal.

Analysis

Bill Summary: The credit against the personal income tax is 30% of up to \$5,000 in qualified expenses for the individual, spouse, or dependent during the taxable year; the full amount of the credit is available to individuals whose federal adjusted gross income (FAGI) is at or below \$80,000 (\$40,000 if married filing separately) and it is reduced by 5% for every \$1,000, or fraction thereof, that FAGI exceeds \$80,000 (or 5% for every \$500, or fraction thereof, if married filing separately).

The individual claiming the credit must commence employment in the State in an occupation directly related to the approved program within one year of completion of the program and remain in that job for one year for each year that a credit was claimed. Otherwise, the credit claimed will be recaptured for each year that the service obligation is not satisfied.

In addition, an employer may claim a credit against the corporate income tax of 30% of the amount paid by the employer for qualified tuition and related expenses, not to exceed \$1,500 for each employee.

The Secretary of the Maryland Higher Education Commission (MHEC), in consultation with various State agencies, is required to identify and designate work-related skills that are in short supply and critical to Maryland's Economic Development Strategy and establish a list of approved programs that qualify for the tax credit. The proposed designation of critical work-related skills and any modifications to the designations must be submitted to the Joint Committee on Administrative, Executive, and Legislative Review for review by November 1 each year.

Current Law: Currently, Maryland does not provide a tax credit against the State income tax for educational-related expenses.

Background:

Federal Law

Taxpayers can deduct, as itemized deductions, education expenses that: (1) maintain or improve required skills in the taxpayers current occupation or business; or (2) are required by the taxpayers employer. The amount of the deduction is limited to expenses above 2% of FAGI.

Congress recently preauthorized the educational assistance program that allows up to \$5,250 of the amount an employer pays to be excluded from the employee's wages (i.e., a tax-free benefit). "Educational assistance" includes the cost of books, equipment, fees, supplies, and tuition. It generally does not include the cost of graduate education. These costs are deductible for the employer.

SB 387 is similar to the federal Lifetime Learning Credit available to individuals who incur educational expenses to improve job skills. Beginning July 1, 1998, taxpayers may claim a credit against federal income taxes of 20% of qualified tuition and related expenses of students in the taxpayer's family who are enrolled in eligible institutions. The maximum credit a taxpayer may claim for a taxable year is \$1,000 through 2002 and \$2,000 thereafter.

The credit is not restricted to training for skills in short supply. The maximum credit is computed on a family or return basis and not on a per student basis. The credit has the same income limitations as proposed under SB 387.

The Hope Scholarship Credit is another federal credit available for educational-related expenses. It enables individuals to elect to take a non-refundable tax credit of up to \$1,500 per student for tuition and related expenses during each of the first two years of post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income over \$40,000 (\$80,000 for joint returns). Beginning in 2001 the maximum credit and income phase-out amounts are adjusted for inflation.

Related Maryland Programs

The Maryland Science and Technology Scholarship (MSTS) Program adopted during the 1998 session targets career fields in high demand. During the 1997 legislative interim, State employers and the Department of Business and Economic Development (DBED) identified the areas of computer science, engineering, and technology as fields in which the number of sufficient qualified applicants was not meeting demand. Eligibility requirements for the MSTS include pursuing eligible academic programs in a scientific or technology field and agreeing to work in the State after graduation for one year for each year that the scholarship was awarded. Fiscal 2000 is the first year of operation for the program; 752 awards were made for a total award amount of \$2,128,000.

In 1999, this scholarship program was expanded to address teacher shortages.

The Governor's proposed fiscal 2001 budget includes \$4,509,502 in general funds for the Science and Technology Scholarship Program and \$5,924,409 in general funds for the Teacher Scholarship Program.

Related Surveys

Maryland's plan for economic development targets sectors of commerce that support growth for Maryland, such as the tourism, agriculture, health, computer, and technology sectors. In 1996, MHEC conducted a survey to identify the unmet workforce needs of employers. The survey listed the academic fields for which employers had strong demand but were not getting a sufficient number of applicants to fill job openings. Although the survey targeted mostly degree programs at community colleges and universities, it identified 49 community college certificates in short supply. These included areas in computer and information technology, agriculture, tourism, and health technology. During the 1997 legislative interim, MHEC and DBED developed a plan for workforce training in the areas of computer science,

engineering, and technology; these sectors having been identified as areas in which the number of sufficient qualified applicants was not meeting demand.

In 1999, the Maryland Business Roundtable for Education surveyed employers to determine unmet workforce needs. "The Maryland Workforce Educational Needs Assessment Survey" reports that the most difficult positions to fill include computer scientists, manufacturing or skilled workers, engineers, and laboratory or technical personnel.

State Revenues: The bill applies to all certificate programs offered through community colleges and private career schools that were approved by MHEC as in short supply and critical to Maryland's strategic plan. The number and types of programs that would ultimately be designated by MHEC, however, cannot be determined at this time. Consequently, general fund revenues would decrease by an indeterminate but potentially significant amount in fiscal 2000.

To the extent that such credits are claimed against the corporate income tax, special fund revenues to the Transportation Trust Fund (TTF) would decline since about 25% of corporate tax revenues are distributed to the TTF.

For illustrative purposes, if MHEC designates only information technology certificate programs as approved programs, it is assumed that about 1,147 individuals may claim the tax credit in tax year 2000. This is based on the number of individuals who graduated from a certificate program in a community college or private career school in 1998 with a certificate in computer or information technology. Data for 1999 are not yet available. Assuming all these programs qualify under the bill and all these individuals meet the participation requirements, the general fund loss in fiscal 2001 would be about \$1.6 million.

The cost would increase if more programs are designated as critical-skilled programs, such as programs in the area of tourism and agriculture. Conversely, the cost would be lower if fewer programs qualify because of the designation and accreditation requirements, and if not all eligible individuals are aware of and claim the credit.

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

Additional Information

Prior Introductions: This bill was introduced in the 1999 session as SB 423 and was vetoed by the Governor.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

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