

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 662 (Delegate Pitkin, *et al.*)
Ways and Means

Tax Credit for Costs of Providing Teleworker Benefits to Employees

This bill allows a credit against the State income tax for “eligible costs” incurred by employers to enable an employee to telework. The credit allowed depends on the number of days an employee teleworks, as follows:

- 50% (\$2,000 maximum) - five or more days per week
- 40% (\$1,600 maximum) - four days per week
- 30% (\$1,200 maximum) - three days per week
- 20% (\$800 maximum) - two days per week
- 10% (\$400 maximum) - one day per week.

The unused amount of the credit may not be carried over to any other taxable year.

The bill takes effect July 1, 2001, and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: Potentially significant loss of general and special fund revenues. *Under one set of assumptions*, total general fund revenues and Transportation Trust Fund (TTF) revenues could decrease by as much as \$12.0 million annually beginning in FY 2003.

Local Effect: Potentially significant loss of local government revenue.

Small Business Effect: Potential meaningful. To the extent that small businesses are able to claim the credit for having employees telework, these businesses could significantly reduce their tax liability.

Analysis

Current Law: No credit of this type exists.

State Fiscal Effect: The actual cost of this bill cannot be reliably estimated at this time because it is difficult to accurately determine the number of employees who currently telework in Maryland and how many more may telework as a result of the bill. Several recent national studies provide conflicting information on the number of employees who telework nationwide. Finally, the eligible costs for setting up an employee to telework could vary greatly from employer to employer.

However, for illustrative purposes only, if 10,000 employees telework annually, and each employee teleworks three days per week, and all employers claim the maximum credit, \$12 million in credits would be claimed annually (10,000 multiplied by \$1,200). As a point of reference, information from a Bureau of Labor Statistics survey indicates that in 1997 approximately 3.7 million wage and salary workers were paid for doing work at home. An additional 2.3 million self-employed individuals worked at home, but did not have home-based businesses. These figures represented 4.4% of the 1997 nationwide workforce.

Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. If all the credits are claimed by corporations, general fund revenue would decrease by \$9 million and TTF revenue would decrease by \$2.1 million annually.

Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. As a result, general fund revenues would decrease by \$12 million annually if all the credits were claimed by pass-through entities that file personal income tax returns.

However, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated at this time.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local

jurisdictions. Based on the assumptions above, this could result in a loss of \$900,000 annually.

Additional Information

Prior Introductions: This bill was introduced as HB 1150 in the 2000 session. It was amended by the House Ways and Means Committee and passed third reading. No action was taken in the Senate.

Cross File: None.

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

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