Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 171 (Delegate W. Baker, *et al.*)
Ways and Means

Tax Credit for Cost of Employee Child Care Expenses

This bill provides an employer a credit against the Maryland income tax equal to 25% of the costs incurred by the employer during the taxable year for eligible employee child care expenses. The amount of the credit may not exceed the State income tax and may not be carried forward to any other taxable year. Eligible employee child care expenses are expenses paid by an employer for the child care expenses of an employee who resides or works in the State if the employer pays at least 10% of the employee's child care expenses.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2002.

Fiscal Summary

State Effect: General fund revenue decrease of approximately $450,000 and a Transportation Trust Fund (TTF) revenue decrease of approximately $150,000 in FY 2003. Future years reflect a full fiscal year and an increased cost of employer-provided child care. No effect on expenditures.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	($450,000)	($1,700,000)	($1,900,000)	($2,200,000)	($2,300,000)
SF Revenue	(150,000)	(600,000)	(700,000)	(700,000)	(800,000)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($600,000)	($2,300,000)	($2,600,000)	($2,900,000)	($3,100,000)

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

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. Based on the above estimate, local government revenues would decrease by approximately $45,000 in FY 2003.

Small Business Effect: Minimal.

Analysis

Current Law: No State income tax credit exists for employer-provided child care expenses. The federal income tax provides for a 25% tax credit for employer-provided child care expenses as well as a 10% credit for child care resource and referral expenditures.

State Fiscal Effect: The Economic Growth and Tax Reconciliation Act of 2001 contained a provision that provides for a 25% tax credit for employer-provided child care expenses as well as a 10% credit for child care resource and referral expenditures. The Joint Committee on Taxation estimated that less than 1% of the federal revenue loss attributed to this provision of the Act would result from the 10% credit.

Based on the joint committee's estimate of the federal legislation and Maryland's population compared to the total U.S. population, it is estimated that general fund revenues would decrease by approximately $450,000 and TTF revenues would decrease by approximately $150,000 in fiscal 2003. The estimate is based on the following facts and assumptions:

- Maryland's population is approximately 1.9% of the U.S. total;
- the estimated cost of the federal legislation is approximately $48.0 million in federal fiscal year 2002 and approximately $108 million in federal fiscal year 2003;
- all credits will be claimed by corporations; and
- 25% of the revenue loss incurred in a given tax year will reduce revenues in the first fiscal year and the remainder will reduce revenues in the second fiscal year.

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. To the extent that credits are claimed on personal income tax returns (filed by pass-through entities), general fund revenues would decrease in the amount of the credits. The estimate assumes that all credits would be claimed on corporate income tax returns.

Local Fiscal Effect: Local government revenues will decline as a result of corporate taxpayers claiming the credits proposed in the bill (see above). Based on the above estimate, local government revenues would decrease by approximately $45,000 in fiscal 2003.

Additional Comments: The State Work Not Welfare Credit and the Qualified Employees with Disabilities Credit provide credit to employers for child care paid or provided by the employer for the children of a qualified employment opportunity employee or the children of a qualified employee with a disability. Employers who qualify for these credits would also be eligible for the credit provided by this bill.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 31, 2002
ncs/jr

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