

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE
Revised

House Bill 1166 (Delegate Cryor, *et al.*)
 Ways and Means

Budget and Taxation

Teleworker Tax Credit Pilot Program

This bill creates a Teleworker Tax Credit Pilot Program in Frederick, Montgomery, and Prince George’s counties to be administered by the Maryland Department of Transportation (MDOT). The program provides business entities in these counties with a credit against the State income tax for “eligible costs” incurred to enable an employee who resides or works in the State to telework. The amount of the credit is equal to the lesser of 10% of the eligible costs of the business entity for the taxable year or \$10,000. The amount of the credit may not exceed the State income tax and may not be carried forward to another taxable year.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2002. The bill sunsets June 30, 2007.

Fiscal Summary

State Effect: State revenue (general fund and Transportation Trust Fund) decrease of up to \$250,000 annually in FY 2004 through FY 2008.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF/SF Rev.	\$0	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)

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

Local Effect : To the extent that credits are taken by corporations, local revenues would decline as a portion of the corporate income tax is distributed to the Transportation Trust Fund (TTF), from which a distribution to local governments is made.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill requires taxpayers to submit an application to MDOT for approval of the credit by October 1 of the taxable year in which the credit is to be claimed. MDOT may not approve total credits exceeding \$250,000 in any taxable year. If total credit applications exceed \$250,000, MDOT must allocate the credits amongst the applicants in a specified manner. MDOT is required to notify applicants by November 15 of the taxable year of the amount of approved credit. Taxpayers are required to attach a copy of MDOT's approval certification with the taxpayer's income tax return for the year.

MDOT is required to report to the Governor and General Assembly by December 15 of each year on: (1) the total number of business entities that applied for tax credits and the total number of business entities approved; (2) the total tax credits sought by all business entities and the total maximum amount of credit approved by MDOT for all business entities; and (3) for each business entity approved: the name and physical location of the business entity in the State; the number of employees that would be performing services for the business entity under a teleworking arrangement and for whom the business entity is seeking the credit; the total qualified telework expenses with respect to each employee performing services for the business entity under a teleworking arrangement; and the maximum amount of the credit sought by a business entity and the maximum amount of the credit approved for each business entity.

Current Law: No income tax credit of this type exists.

State Fiscal Effect: The 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, the bill caps the total amount of the allowable credit for each year at \$250,000. It is assumed that the maximum credit allowed will be claimed each year.

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. A Rutgers University/University of Connecticut study indicates that approximately 9% of U.S. employees telework. The Clean Air Campaign estimates that the initial start-up cost for a teleworking employee is approximately \$3,500.

About 2.5 million people are currently employed in Maryland. The counties in which the pilot program will be conducted represent approximately 34.6% of the State's population.

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 revenues would decrease by \$187,500, and TTF revenues would decrease by \$62,500 annually.

Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. As a result, if all the credits were claimed by pass-through entities that file personal income tax returns, general fund revenues would decrease by the entire \$250,000 annually.

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

The Maryland Department of Transportation (MDOT) indicates that special fund expenditures would increase by approximately \$75,700 in fiscal 2003 as a result of hiring two administrative assistants to administer the teleworker tax credit pilot program.

The Department of Legislative Services advises that because this is a five-year pilot program and the level of participation is currently unknown, the program could be administered with existing budgeted resources. If, in future years, existing resources prove to be inadequate to administer the program, MDOT can request additional contractual employees through the normal budget process.

The Office of the Comptroller would incur a one-time expenditure of \$42,400 to make changes to the SMART processing systems to add the credit to form 502CR of the income tax return. The Department of Legislative Services advises that since forms and instructions are updated annually, the cost of these changes could be absorbed within existing resources.

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 \$1.1 million annually.

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

Additional Information

Prior Introductions: A similar bill was introduced as HB 662 in the 2001 session. No action was taken by the House Ways and Means Committee. A similar bill was also introduced as HB 1150 in the 2000 session. It passed the House, but 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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