

**Department of Legislative Services**  
 Maryland General Assembly  
 2002 Session

**FISCAL NOTE**

House Bill 1406 (Delegate Pitkin)  
 Ways and Means

**Tax Credit - Telework**

This bill allows a credit against the State income tax for expenses paid or incurred under a teleworking arrangement by an employer for furnishings and electronic information equipment used to enable an individual to telework. The amount of the credit claimed by an employer on behalf of each individual who teleworks may not exceed \$500. Each employer may claim no more than the lesser of \$10,000 or the total amount of credits approved by the Department of Business and Economic Development (DBED). The amount of the credit claimed may not exceed the State tax for the taxable year and any unused credit may be carried forward until the full amount of the credit is used. The Department of Business and Economic Development may not approve more than \$1,000,000 in credits for any taxable year.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001.

**Fiscal Summary**

**State Effect:** Revenue (general fund and Transportation Trust Fund) decrease of \$1.0 million annually beginning in FY 2003. No effect on expenditures.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF/SF Rev.	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)

*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 credit proposed by the bill. Seventy-five percent 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.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** Telework means to perform work functions using electronic information and communication technologies, thereby reducing or eliminating the physical commute to and from the traditional worksite. Teleworking arrangement means an arrangement under which an employee teleworks for an employer not less than 50 days per year.

Eligible employer is an employer for whom an employee residing or working in the State performs services under a teleworking arrangement

Qualified telework expenses are expenses paid or incurred under a teleworking arrangement for furnishings and electronic information equipment that are used to enable an individual who resides or works in the State to telework.

For purposes of determining Maryland taxable income, the basis of any property with respect to which a credit is allowed is its basis for federal income tax purposes. The Comptroller is required, by regulation, to provide for recapturing the benefit of any credit allowed under this section with respect to any property that ceases to be property eligible for the credit. The credit may not be claimed with respect to any property that is referred to in § 50(b) of the Internal Revenue Code or the portion of the cost of any property taken into account under § 179 of the Internal Revenue Code.

No other deduction or credit is allowed with respect to any expense that is taken into account in determining the credit.

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

**Background:** Teletrips.com is Internet based software that is designed to help employers with the management of trip reduction programs such as telework. Its primary function is to monitor the reduction of emissions resulting from “non-trips” made by employees to the office. Employers can then turn the amount of reduced emissions into emissions credits which can be traded or sold to other businesses.

A federal two-year pilot program that encourages improving the environment by offering various incentives, such as the trading and selling of emissions credits, began in April 2001. The program is supported and partially funded by the Environmental Protection Agency.

**State Fiscal Effect:** It is estimated that the \$1.0 million cap on teleworking tax credits will be reached each year. Therefore, total general fund and Transportation Trust Fund revenues would decrease by \$1.0 million annually beginning in fiscal 2003.

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. Therefore, it is assumed that the maximum \$500 credit would be claimed by or for each employee.

About 2.5 million people are currently employed in Maryland. For illustrative purposes only, if 25,000 employees telework annually (1% of all Maryland employees), and the maximum credit is claimed, \$12.5 million in credits would be claimed annually. To the extent the bill encourages more individuals to telework, revenues would decrease accordingly (\$500 for every individual teleworking). Because the bill imposes a \$1.0 million cap on the amount of credits that may be claimed in one year, total State revenue losses would not exceed \$1.0 million annually.

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. Credits taken on personal income tax returns (by pass-through entities that file personal income tax returns) will reduce general fund revenues in the amount of the credits.

Administrative costs incurred by DBED to administer the program can be handled with existing budgeted resources.

**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.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office (Bureau of Revenue Estimates), National Environmental Policy Institute, Teletrips.com, Department of Legislative Services

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