**HB 1048**

# Department of Legislative Services

Maryland General Assembly
2002 Session

## FISCAL NOTE

House Bill 1048 (Delegate Hecht, *et al.*)
Ways and Means

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### Telework Tax Incentive Act

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This bill provides that an "eligible taxpayer" may claim a credit against the State income tax in an amount equal to the "qualified teleworking expenses" paid or incurred by the eligible taxpayer during the taxable year. For each individual who teleworks, the credit allowed for qualified teleworking expenses paid or incurred by or on behalf of the individual may not exceed $500. If an individual is in a teleworking arrangement for less than a full taxable year, the maximum credit is prorated for the amount of time teleworking. The credit may not exceed the State income tax for that taxable year, but any unused credit may be carried forward until the full amount of the credit is used.

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

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## Fiscal Summary

**State Effect:** Potentially significant decrease in general fund and Transportation Trust Fund (TTF) revenues. Under one set of assumptions, total general fund and TTF revenues could decrease by $12.5 million annually beginning in FY 2003 (1% of Maryland workers teleworking).

**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 75 days per year.

Eligible taxpayer is defined as an individual who resides or works in the State and performs services for an employer under a teleworking arrangement or 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.

**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. However, the revenue loss could be significant, in part because it allows both the employer and employee to claim the credit. Finally, the eligible costs for setting up an employee to telework could vary greatly from employer to employer.

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 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 $9.4 million, and TTF revenues would decrease by $3.1 million 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 $12.5 million 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 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 credit proposed by 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% are distributed to local jurisdictions.

**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 Comments:** The bill would allow both the employee and employer to claim the credit provided that the total claimed does not exceed $500 for the taxable year. The Comptroller indicates that this could create compliance difficulties.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office (Bureau of Revenue Estimates), Department of Budget and Management, Department of Legislative Services

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