HB 988

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 988 (Delegate Sossi, *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 and whose income is at or below the median income for the State if the employer pays at least 10% of the employee's child care expenses.

The bill takes effect July 1, 2003 and applies to all taxable years beginning after December 31, 2003.

Fiscal Summary

State Effect: Potential significant revenue decrease. For illustrative purposes only, if 50% of employees make below the median income, general fund revenues could decrease by $850,000 in FY 2005 and Transportation Trust Fund (TTF) revenues could decrease by $300,000. Future years would reflect a full fiscal year and an increased cost of employer-provided child care. No effect on expenditures.

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. Based on the above illustration, local government revenues would decrease by up to $90,000 in FY 2005.

Small Business Effect: Potential meaningful.

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.

Background: 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.

State Fiscal Effect: The federal 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 Congressional 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.

The bill's effect on revenues cannot be reliably estimated at this time. However, for illustrative purposes only, 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 could decrease by approximately $850,000 and TTF revenues could decrease by approximately $300,000 in fiscal 2005. By 2008, the general fund loss would be $1,250,000 and the TTF loss would be $400,000. 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 $129.0 million in federal fiscal 2004 and approximately $142.0 million in federal fiscal 2005;
- 50% of employees are below the median income of $53,530;
- 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 76% of all corporate income tax revenues are distributed to the general fund and 24% 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 24% of the credits taken. In addition, 30% of the 24% 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 up to approximately $90,000 in fiscal 2005.

Small Business Effect: Small businesses that pay for child care for their employees would benefit from the bill. These businesses could also benefit from a larger pool of employees in the workforce if the credit entices a greater number of employers to pay child care expenses who would in turn be able to hire employees who otherwise would have been unable to work.

Additional Information

Prior Introductions: A similar bill was introduced as HB 171 in the 2002 session. It received an unfavorable report from the House Ways and Means Committee.

Cross File: SB 491 (Senator Pipkin) – Budget and Taxation.

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

Fiscal Note History: First Reader - February 27, 2003
ncs/jr

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