Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 754   (Senator Lawlah)

Budget and Taxation

Tax Credit for Approved Work-Based Learning Programs - Extension

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This bill extends the sunset date for the tax credit program for approved work-based learning programs for students from June 30, 2004 to June 30, 2008. The Maryland State Department of Education (MSDE) must evaluate the effectiveness of the tax credit program and prepare an interim report to the Senate Budget and Taxation Committee and the House Ways and Means Committee by December 31, 2004 and a provide a final report to these two committees by January 1, 2008.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: General fund revenue decline of approximately $39,200 in FY 2005. Transportation Trust Fund (TTF) decrease of approximately $5,300 in FY 2005. Out-year estimates reflect 16% growth in the amount of credits claimed and the bill's sunset provisions.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	($39,200)	($45,500)	($52,900)	($61,500)	$0
SF Revenue	(5,300)	(6,200)	(7,200)	(8,400)	0
Expenditure	$0	$0	$0	$0	$0
Net Effect	($44,500)	($51,700)	($60,100)	($69,900)	$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 tax credit claims against the corporate income tax. Local revenues would decrease by approximately $2,000 in FY 2005. Future local revenue losses increase by 16% annually, totaling approximately $2,500 in FY 2009.

Small Business Effect: Minimal.

Analysis

Current Law: The tax credit terminates June 30, 2004 and may only be applied to tax years beginning in 1999 and ending in 2003. The program allows approved employers to claim income tax credits in the amount of 15% of the wages paid to secondary or postsecondary students between 16 and 22 years of age who are participating in work-based learning programs. The total credit claimed per student cannot exceed $1,500 for all tax years. Up to 1,000 students annually may be approved for participation in the tax credit program.

Background: Chapter 660 of 1998 established the tax credit for approved work-based learning programs for students, with a sunset provision of June 30, 2001. Chapter 611 of 2001 extended that sunset until June 30, 2004 and required MSDE to evaluate the effectiveness of the tax credit program and report its findings to the Senate Budget and Taxation Committee and the House Ways and Means Committee by November 1, 2003. According to the report, since the inception of the tax credit, 40 businesses have participated in the program. A majority of participating students are 18 years old and enrolled in high school.

State Revenues: General fund and TTF revenues could decrease by approximately $44,500 in fiscal 2005. Future year declines increase by approximately 16%. These estimates are based on the following assumptions and facts:

- in tax year 2002, 11 returns claimed the credit for a total of $32,916;

- from tax year 2000 to 2002, the amount of credits claimed increased annually by approximately 16%; and

- approximately one-half of tax returns have claimed the credit against the corporate income tax, which is distributed 76% to the general fund and 24% to the TTF.

Taxpayers could begin claiming the tax credit under current law beginning in tax year 1999. Participation in the tax credit has been limited (approximately 35 students annually). Given up to 1,000 students are authorized to participate in the program, future revenue losses will be greater to the extent that more students participate in the program.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland State Department of Education, Department of Legislative Services

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mh/mdr

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