

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

Senate Bill 486 (Senator Garagiola, *et al.*)  
 Budget and Taxation

**Tax Credit for Cost of Employee Teleworking Expenses**

This bill creates a tax credit against the State income tax for certain teleworking expenses paid by an employer in order for an employee to work from home or at an alternative work site. The total amount of credits that can be approved are limited in the first three tax years: \$100,000 in tax year 2005, \$175,000 in tax year 2006, and \$250,000 in tax year 2007.

The bill takes effect July 1, 2004 and applies to tax year 2005 and thereafter.

**Fiscal Summary**

**State Effect:** General fund revenue decrease of approximately \$88,000 beginning in FY 2006 due to credits being claimed against the personal and corporate income tax. Transportation Trust Fund (TTF) decrease of approximately \$12,000 due to credits being claimed against the corporate income tax. FY 2007 and FY 2008 revenue decreases reflect the cap on total credits. FY 2009 special and general fund decrease of approximately \$95.0 million reflects estimated 10% increase in eligible firms from 2001 through 2008 and an average credit claim of \$2,500.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$0	(\$88,000)	(\$154,000)	(\$220,000)	(\$83,608,538)
SF Revenue	0	(12,000)	(21,000)	(30,000)	(11,401,164)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$100,000)	(\$175,000)	(\$250,000)	(\$95,009,702)

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

**Local Effect:** Local revenues would decline as a result of the credit being claimed against the corporate income tax. Local revenues would decline by \$3,600 in FY 2006 if

half the credits are claimed against the corporate income tax. Local revenues would decline by approximately \$3.4 million in FY 2009.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The amount of the credit is equal to 25% of employer-paid teleworking expenses. The maximum amount of credit cannot exceed \$5,000 or the tax liability for that year. Any unused portion of the credit cannot be carried forward to any other tax year. Tax credits may be applied for and approved beginning in tax year 2005.

Eligible employee teleworking expenses are defined as expenses paid by an employer for equipment or services used by an employee to work from home or at an alternative work site approved by the employer. Qualifying expenses are the installation and maintenance of telephone lines and telecommunications equipment at either the residence of the employee or at an alternative work site as well as payment of telecommunication services that are necessary for an employee to telework.

By October 1 of each year, an employer who is seeking the credit for the current tax year must submit an application to the Maryland Department of Transportation (MDOT). By November 15 of that year, MDOT must certify the amount of credit approved. This certification must be included when the tax credit is being claimed.

By December 15, the Secretary of Transportation must report to the Comptroller, Speaker of the House, and President of the Senate, a report that includes the following information for that tax year: (1) the total number of employers that applied and were approved for the credit; (2) the total amount of credit sought and total amount of credit approved; and (3) for each credit application approved: the name and address of the employer, the number of employees that are teleworking, the amount of eligible teleworking expenses, and the amount of credit applied for and the amount of credit approved. MDOT must adopt regulations to carry out the provisions of this bill.

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

**Background:** Maryland currently operates a public-private teleworking program through MDOT called the Telework Partnership with Employers. The program provides up to \$15,000 per business, nonprofit organization, or local government to hire a teleworking consultant. So far, approximately 30 organizations, including Discovery

Communications, the City of Rockville, and Montgomery County Public Schools have participated.

Additionally, the U.S. General Services Administration, under the federal telework center program, provides funds for numerous telework centers throughout Maryland open to both public and private sector teleworkers.

The Metropolitan Washington Council of Governments estimated that in 2001, approximately 400,000 people in the Washington metropolitan area telecommuted. The Baltimore Metropolitan Council estimated that in 1999, 55,000 people in the Baltimore metropolitan area telecommuted. The number of employees teleworking at least part time has dramatically increased within the last few years. The International Telework Association and Council estimates that the number of Americans who work from home at least one day per month has increased nearly 40% since 2001.

**State Revenues:** This bill authorizes credits to be earned beginning in tax year 2005 and limits the total amount of credits to \$100,000 in tax year 2005, \$175,000 in tax year 2006, and \$250,000 in tax year 2007. There is no cap in tax year 2008. As a result, revenues will decrease by \$100,000 in fiscal 2006, \$175,000 in fiscal 2007, \$250,000 in fiscal 2008, and approximately \$90.0 million in fiscal 2009. It is estimated that in fiscal 2009, approximately 38,000 firms will claim the credit. This estimate is based on the following facts and assumptions:

- The International Telework Association and Council estimates that 28 million Americans teleworked in 2001. Assuming that the number of Maryland teleworkers is proportional to the population of the United States (1.9%), an estimated 532,000 Marylanders teleworked in 2001.
- The Maryland Association of Nonprofit Organizations estimates that approximately 10% of Maryland employees work at nonprofit organizations. According to the Bureau of Labor Statistics, approximately 20% of Marylanders worked for federal, State, or local government. Therefore, it is estimated that 30% of teleworkers work at either a nonprofit or a unit of government and would not qualify for the credit.
- It is assumed that the percentage of Maryland employees teleworking (20%) is equal to the percentage of companies offering teleworking.
- In 2001, there were an estimated 97,512 private companies in Maryland.
- The number of firms offering teleworking and claiming the credit increases by 10% annually from 2001 to 2008.

- Each firm will claim, on average, \$2,500 in tax credits based on the distribution of Maryland firms by number of employees and Clean Air Campaign estimates that teleworking involves \$3,500 in initial costs and \$1,980 in annual ongoing costs.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1101 (Delegate Cryor) – Ways and Means.

**Information Source(s):** Baltimore Metropolitan Council, Bureau of Labor and Statistics, U.S. Census Bureau, Comptroller's Office, International Telework Association and Council, Maryland Association of Nonprofit Organizations, Washington Council of Governments, Department of Legislative Services

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mll/mdr

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