SB 478

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 478 (Senator Pipkin)
Budget and Taxation

Tax Credit for Cost of Employee Child Care Expenses

This bill creates a credit against the State income tax equal to 25% of the child care costs paid by an employer during the tax year on behalf of a qualified employee. In order to qualify, the employer must pay at least 10% of the employee's child care expenses. The employee must either reside or work in the State and must "have an income below the State median income." The amount of the credit may not exceed the State income tax liability in the tax year and may not be carried forward to any other taxable year.

The bill takes effect July 1, 2006 and applies to tax years 2007 and beyond.

Fiscal Summary

State Effect: The extent of any State revenue loss depends on the number of businesses that pay qualifying child care expenses and the amount of qualifying expenses. Under one set of assumptions, State revenues could decrease by approximately $5.8 million annually beginning in FY 2008. General fund expenditures would increase by approximately $32,900 in FY 2008, which reflects one-time tax form changes and computer programming expenditures.

Local Effect: Based on the assumptions above, local highway user revenues could decrease by approximately $312,200 annually beginning in FY 2008, if three-quarters of the credits were claimed against the corporate income tax.

Small Business Effect: Potential meaningful.

Analysis

Current Law: No exact State income tax credit exists, although similar federal and State tax credits are available as discussed below. In addition, child care expenses can be typically deducted by a business, which lowers federal and State tax liability.

Background: The State Employment Opportunity Credit allows businesses that hire an individual who is a recent recipient of temporary cash assistance from the State to claim a tax credit for wages paid to the employee and for child care and transportation expenses paid on behalf of the employee. Employers can claim a credit of up to $600 of child care or transportation expenses paid on behalf of qualifying employees in the first year of employment ($500 in year two). The State Maryland Disability Employment Tax Credit also offers employers a credit for child care paid on behalf of an individual with disabilities. The credit is calculated in the same manner as the Employment Opportunity Credit. Both programs expire June 30, 2006.

The federal credit for Employer-Provided Childcare Facilities and Services provides employers a credit equal to 25% of qualified child care facility expenditures plus 10% of the qualified child care resource and referral expenditures paid or incurred during the tax year. The maximum amount of the credit is limited to $150,000 per tax year.

The Welfare-to-Work Tax Credit is a federal income tax credit that encourages employers to hire "Long-term Temporary Assistance to Needy Families Assistance Recipients" who begin to work on or after December 31, 2003, and before January 1, 2006. Established by the Taxpayer Relief Act of 1997, this tax credit can reduce employers' federal tax liability by as much as $8,500 per new hire. The value of the credit is 35% of qualified wages for the first year of employment and 50% for the second year. Qualified wages are capped at $10,000 per year. Wages include tax-exempt amounts received under accident or health plans as well as educational assistance and dependent assistance and child care programs.

Federal and State tax credits are available for an individual's child and dependent care expenses incurred that are necessary to work or look for work. The federal Child and Dependent Care Tax Credit offers a maximum credit of 35% of qualifying expenses; subject to a maximum of $1,050 for one qualifying person and $2,100 for two or more qualifying persons. The amount of the credit decreases by 1% for each $2,000 of federal adjusted gross income over $15,000. The credit is 20% for gross incomes $43,000 and above. The Maryland Dependent Care Credit provides a nonrefundable credit based on the amount of federal credit claimed, subject an income threshold.

State Revenues: The actual cost of the bill, which cannot be reliably estimated at this time, depends on the number of businesses that pay qualifying child care expenses and the total amount of expenses incurred.

However, for illustrative purposes only, general fund revenues could decrease by approximately $4.8 million annually beginning in fiscal 2008. Transportation Trust Fund revenues could decrease by approximately $1.0 million annually beginning in fiscal 2008.

This estimate is based on the following facts and assumptions:

- The Board of Revenue Estimates projects that total State nonfarm employment will be approximately 2.6 million in 2007.
- Approximately 30% of employees work for a unit of government or nonprofit entity.
- According to the March 2003 National Compensation Survey, 4% of workers in the mid-Atlantic region work for an employer who provides employer-provided funds for child care.
- A spring 2000 survey conducted by the Children's Defense Fund estimated that the average annual costs for child care in Maryland ranged from $4,799 to $5,787 for children through age four and between $4,025 and $4,253 for school-aged children. An average of $4,716 is assumed and adjusted at an annual inflation rate of 4% from 2000 to 2007.
- Employers elect to pay the minimum 10% of qualifying child care expenses.
- Seventy-five percent of credits are claimed against the corporate income tax.
- Twenty-five percent of credits are claimed against the personal income tax.

To the extent that employers elect to pay more than 10% of qualifying child care expenses for qualifying employees, revenues could decrease by a greater amount than estimated.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $32,850 in fiscal 2008 to add the credit to the personal and corporate income tax forms. This includes processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: This bill was introduced in the 2003 session as SB 491/HB 988. SB 491 was not reported from the Senate Budget and Taxation Committee. HB 988 received an unfavorable report from the House Ways and Means Committee. A similar bill was introduced in the 2002 session as HB 171, which received an unfavorable report from the House Ways and Means Committee.

Cross File: HB 337 (Queen Anne's County Delegation) – Ways and Means.

Information Source(s): Bureau of Labor Statistics, Children's Defense Fund, Comptroller's Office, Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510