

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Session

**FISCAL AND POLICY NOTE**

House Bill 154 (Delegate Minnick, *et al.*)  
 Ways and Means

**Income Tax Credit for Employer-Provided Child Care for Employees**

This bill creates a tax credit against the State income tax for 25% of the expenses paid by an employer to provide on-site child care for its employees in the State. The amount of the credit may not exceed the tax liability in the tax year, and any unused credits may not be carried forward.

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

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by \$277,400 in FY 2008 due to credits being claimed against the corporate income tax. Transportation Trust Fund (TTF) revenues could decrease by \$87,600 in FY 2008, of which the State’s share is \$61,300. Future years reflect estimated number of taxpayers claiming the credit. General fund expenditures would increase by \$34,000 in FY 2008, which reflects one-time tax form changes and computer programming expenses at the Comptroller’s Office.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$277,400)	(\$317,700)	(\$361,400)	(\$408,700)	(\$459,800)
SF Revenue	(87,600)	(100,300)	(114,100)	(129,100)	(145,200)
GF Expenditure	34,000	0	0	0	0
Net Effect	(\$399,000)	(\$418,000)	(\$475,500)	(\$537,800)	(\$605,000)

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

**Local Effect:** Local highway user revenues distributed from the TTF would decrease by \$26,300 in FY 2008, \$30,100 in FY 2009, \$34,300 in FY 2010, \$38,700 in FY 2011, and \$43,600 in FY 2012. Local expenditures would not be affected.

**Small Business Effect:** Minimal.

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## Analysis

**Current Law:** No similar State income tax credit exists, but businesses can typically deduct the costs of establishing and maintaining an on-site child care facility, resulting in a lower federal and State income tax liability.

Chapter 284 of 1987 authorized local jurisdictions to provide a property tax credit against the county or municipal property tax for businesses with at least 25 employees that operate a day care center. The credit is for any real property that is set aside and dedicated exclusively for a licensed day care center. The amount of the credit may not exceed \$3,000 or the amount of property tax attributable to the day care center, whichever is less. To date, Harford, Howard, and Montgomery counties have authorized this property tax credit.

**Background:** The federal Bureau of Labor Statistics estimates that nationwide a very small percentage of private industry establishments operate on-site child care centers for the benefit of their employees. The Maryland Committee for Children estimates that in March 2006 there were 82 day care centers that provide employee-related child care on-site. The vast majority of these centers are for employees working for federal, state, or local governments and nonprofit organizations.

**State Revenues:** Tax credits could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by \$277,400 in fiscal 2008. TTF revenues could decrease by \$87,600. This estimate is based on the following facts and assumptions:

- approximately 25% of the 82 on-site day care centers are estimated to be private industry establishments that could claim the credit;
- based on a similar credit in California, each company would claim on average approximately \$15,800. It is assumed that the average credit amount claimed increases by 5% annually;
- private businesses open two on-site day care centers annually; and
- all credits are claimed against the corporate income tax.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 in fiscal 2008 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Human Resources, Maryland Committee for Children, Comptroller's Office, Federal Bureau of Labor Statistics, Maryland State Department of Education, California Tax Expenditure Report, Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2007  
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