**SB 776**

# Department of Legislative Services

Maryland General Assembly
2008 Session

## FISCAL AND POLICY NOTE

Senate Bill 776 (Senator Jones)
Budget and Taxation

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**Tax Credit for Employer-Established Paid Work-Based Learning Programs**

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This bill establishes a tax credit program for approved work-based learning programs. The Department of Labor, Licensing, and Regulation must adopt implementing regulations and 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, 2014.

The bill takes effect July 1, 2008 and applies to tax years 2009 through 2014. The bill terminates June 30, 2015.

## Fiscal Summary

**State Effect:** General fund revenues could decrease by $645,100 in FY 2010; Transportation Trust Fund revenues could decrease by $178,400; and Higher Education Investment Fund revenues could decrease by $52,600. Future year revenue losses reflect estimated growth in companies claiming the credit. General fund expenditures would increase by $34,000 in FY 2010 due to one-time tax form changes and computer expenses at the Comptroller's Office.

| (in dollars) | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|---|---|---|---|---|---|
| GF Revenue | $0 | ($645,100) | ($669,900) | ($692,400) | ($714,500) |
| SF Revenue | 0 | (231,000) | (239,900) | (247,900) | (255,800) |
| GF Expenditure | 0 | 34,000 | 0 | 0 | 0 |
| Net Effect | $0 | ($910,100) | ($909,800) | ($940,300) | ($970,300) |

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

**Local Effect:** Local government highway user revenues would decrease as a result of tax credit claims against the corporate income tax. Local revenues would decrease by $53,500 in FY 2010 and by $59,300 in FY 2013. No effect on expenditures.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** The program allows approved employers to claim income tax credits in the amount of 15% of the wages paid to a qualified individual who is participating in a work-based learning program. In order to claim the credit, employers must: (1) employ the individual for at least 1,000 hours; and (2) provide structured employer-supervised learning that: (a) adheres to established public safety standards; (b) links each student's career interest; and (c) involves learning language skills for the construction industry. A written approved work-based learning program is required that includes a description of the knowledge and skills to be gained.

A qualified individual must be at least age 18 and be enrolled in an approved apprenticeship program or be enrolled in a program to teach workplace language skills to individuals engaged in multicraft construction.

The total credit claimed per individual cannot exceed $3,000 for all tax years. Any unused amount of the credit can be carried forward for up to five tax years. A maximum of 1,000 individuals annually may be approved for participation in the tax credit program.

**Current Law:** Businesses can deduct for federal tax purposes the cost of employee training expenses, which typically lowers federal and State income tax liability. A similar, but more limited, tax credit program terminated June 30, 2004 that applied to tax years 1999 through 2003.

**Background:** Chapter 660 of 1998 established a 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. The credit was equal to 15% of the wages paid to a qualified individual who participated in a work-based learning program, not to exceed $1,500 for each individual. In the last year of the credit, 23 companies claimed a approximately $85,000 in credits. The credit was limited to students ages 16 to 23 in approved work-based programs that resulted in the student gaining at least one unit of academic credit and did not explicitly include programs involving language instruction in the construction industry.

**State Revenues:** Tax credits could be claimed beginning in tax year 2009. As a result, general fund revenues could decrease by $645,100 in fiscal 2010; TTF revenues could decrease by $178,400; and HEIF revenues could decrease by $52,600. Future year revenue losses would increase by about 5% annually through fiscal 2013.

This estimate is based on the history of the previous tax credit program and adjusted to reflect: (1) increased economic activity in the State since termination of the program; and (2) expansion to individuals over age 23 and for language instruction in the construction industry.

Given up to 1,000 students are authorized to participate in the program, future year revenue losses will be greater to the extent that more students participate in the program. To the extent that the program is fully subscribed, State revenues would decrease by $3 million annually.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of $34,000 in fiscal 2010 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return and processing systems, and systems testing.

The bill requires DLLR to administer the tax credit program and evaluate its effectiveness. Based on the estimated amount of credits that would be claimed, any additional workload could be handled with existing budgeted resources.

## Additional Information

**Prior Introductions** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 26, 2008
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