

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

Senate Bill 297

(Senator King, *et al.*)

Budget and Taxation

Ways and Means

**Tax Credit For Employer Established Work-Based Learning Programs for Students**

This bill reestablishes the tax credit program for approved work-based learning programs for students. The Maryland State Department of Education (MSDE) must 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, 2012.

The bill takes effect July 1, 2008 and applies to tax years 2009 through 2012. The bill terminates June 30, 2013.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease \$99,000 in FY 2010. Transportation Trust Fund (TTF) revenues could decrease \$15,400 in FY 2010. Higher Education Investment Funds (HEIF) could decrease \$4,500 in FY 2010. Future year losses reflect estimated growth in companies claiming the credit. General fund expenditures would increase \$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	(\$99,000)	(\$104,400)	(\$109,200)	(\$113,900)
SF Revenue	0	(20,000)	(21,000)	(22,000)	(23,000)
GF Expenditure	0	34,000	0	0	0
Net Effect	\$0	(\$153,000)	(\$125,400)	(\$131,200)	(\$136,900)

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

**Local Effect:** Local government revenues would decrease as a result of tax credit claims against the corporate income tax. Local revenues would decrease \$4,600 in FY 2010 and \$5,300 by FY 2013. No effect on expenditures.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The program allows approved employers to claim tax credits in the amount of 15% of the wages paid to secondary or postsecondary students between 16 and 23 years of age who are participating in work-based learning programs. In order to claim the credit, employers must: (1) employ the student for at least 200 hours; (2) provide structured employer-supervised learning that: (a) integrates the student's classroom instruction and provides at least one unit of academic credit; and (b) links each student's career interest. A written approved work-based learning program is required that includes a description of the knowledge and skills to be gained and approval from the student's school.

The total credit claimed per student cannot exceed \$1,500 for all tax years. Any unused amount of the credit can be carried forward for up to five tax years. The credit can be claimed by individuals against the State income tax and by insurers against the premium tax. A maximum of 1,000 students annually may be approved for participation in the tax credit program.

**Current Law:** The tax credit terminated June 30, 2004 and may only be applied to tax years 1999 through 2003.

**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. **Exhibit 1** lists the total number of credits and number of students employed through the program from tax year 2000 through 2003.

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**Exhibit 1  
Credits Claimed  
Tax Years 2000-2003**

<u>Tax Year</u>	<u>Companies</u>	<u>Credits</u>	<u>Average Credit per Return</u>
2000	16	\$34,022	\$2,126
2001	17	33,426	1,966
2002	22	71,512	3,251
2003	23	84,932	3,693

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**State Revenues:** Tax credits could be claimed beginning in tax year 2009. As a result, general fund revenues could decrease by \$99,000 in fiscal 2010; TTF revenues could decrease by \$15,400; and HEIF revenues could decrease by \$4,500. Future year revenue losses would increase by about 5% annually through fiscal 2013. This estimate is based on the history of the previous credit program and adjusted to reflect increased economic activity in the State since termination of the program. 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.

**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 MSDE 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.

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**Additional Information**

**Prior Introductions:** SB 613 of 2005, an identical bill, was not reported from the Senate Budget and Taxation Committee. HB 218 of 2004, a similar bill, passed the House and Senate but contained different provisions that were not reconciled.

**Cross File:** None.

**Information Source(s):** Bureau of Economic Analysis, Comptroller's Office, Economy.com, Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader - February 4, 2008  
mam/hlb

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