SB 273

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 273 (Senator King, *et al.*)
Budget and Taxation

Income Tax Credit - Apprenticeship and Training - Work-Based Learning Program

This bill creates a tax credit against the State income tax for individuals or corporations that employ an apprentice for at least seven months during a taxable year in an apprenticeship program approved by the Maryland Apprenticeship and Training Council (MATC). The credit is equal to the lesser of the cost, not to exceed $1,000, of employing an apprentice during the year or the amount stated on an approved tax credit certificate. MATC may approve up to $1 million in aggregate tax credit certificate applications annually.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $807,300 beginning in FY 2017 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by $65,700 in FY 2017, and Higher Education Investment Fund (HEIF) revenues decrease by $27,000. General fund expenditures increase by $250,400 in FY 2017 due to implementation and administrative costs at MATC and the Comptroller's Office.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	($807,300)	($807,300)	($807,300)	($807,300)	($807,300)
SF Revenue	($92,700)	($92,700)	($92,700)	($92,700)	($92,700)
GF Expenditure	$250,400	$111,400	$115,700	$120,200	$124,900
Net Effect	($1,150,400)	($1,011,400)	($1,015,700)	($1,020,200)	($1,024,900)

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

Local Effect: Local highway user revenues decrease by approximately $6,300 annually beginning in FY 2017 as a result of credits claimed against the corporate income tax.

Small Business Effect: Minimal. Small businesses that employ eligible apprentices would benefit by claiming up to $1,000 in income tax credits for each eligible apprentice.

Analysis

Bill Summary: The credit may not be claimed for an individual apprentice for more than four taxable years. By July 15 of each year, an individual or a corporation may submit an application, which must contain specified information, to MATC for a tax credit certificate. Tax credit applications are approved on a first-come, first-served basis. The credit may not be carried over to any other taxable year. By January 15 of each year, an individual or corporation that claims a credit for the prior year must provide specified evidence to MATC. MATC, in consultation with the Comptroller, must adopt regulations that provide for the administration, criteria, procedures, and monitoring for the tax credit.

Current Law: No State tax credit of this type exists for employing apprentices, but the State provided a tax credit program for approved work-based learning programs for students, which abrogated on June 30, 2013. The program allowed 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 participated in work-based learning programs. The total credit claimed per student could not exceed $1,500 for all tax years.

Generally, apprenticeship is a voluntary, industry-sponsored system that prepares individuals for occupations typically requiring high-level skills and related technical knowledge. Apprenticeships are sponsored by one or more employers and may be administered solely by the employer or jointly by management and labor groups. An apprentice receives supervised, structured, on-the-job training under the direction of a skilled journeyperson and related technical instruction in a specific occupation. Apprenticeships are designed to meet the workforce needs of the program sponsor. Many industry sponsors use apprenticeship as a method to train employees in the knowledge necessary to become a skilled worker. This also means the number of apprenticeships available is dependent on the current workforce needs of the industry.

Apprenticeships are available to individuals age 16 and older; an employer, however, may set a higher entry age. By law, individuals must be age 18 to apprentice in hazardous occupations. Apprenticeships last from one to six years, although most are three to four years, and involve a minimum of 144 hours of classroom instruction per year and at least 2,000 hours per year of on-the-job training. A national apprenticeship and training program was established in federal law in 1937 with the passage of the National Apprenticeship Act, also known as the Fitzgerald Act. The purpose of the Act was to promote national standards of apprenticeship and to safeguard the welfare of apprentice workers.

Along with 24 other states, Maryland has chosen to operate its own apprenticeship programs. In 1962, Maryland created the 12-member MATC. Within the framework established in federal law, the State's apprenticeship and training law also established the guidelines, responsibilities, and obligations for training providers and created certain guarantees for workers who become apprenticed.

MATC, along with the Division of Labor and Industry (DLI) within Department of Labor, Licensing, and Regulation (DLLR), serves in a regulatory and advisory capacity by providing guidance and oversight to the Maryland Apprenticeship and Training Program, which is responsible for the daily oversight of State apprenticeship programs. More specifically, MATC and DLI approve new apprenticeship programs and changes to current programs. The approval process involves assessing the appropriateness of an apprenticeship program in a proposed industry, the education that will be provided to the apprentice, the current staffing level of the entity proposing the program to determine whether adequate supervision can be provided, recruitment and retention efforts, and the overall operations of the entity. MATC also serves in an advisory role for legislation and regulations, recommending changes to update apprenticeship laws.

Background: In fiscal 2015, there were 9,130 active apprentices in Maryland, of which 3,630 apprentices had just begun their apprenticeship, and there were 1,228 active apprenticeship programs.

State Revenues: MATC may approve a maximum of $1 million in credits annually beginning in tax year 2016, and the credit may not exceed $1,000 for each eligible apprentice. As a result, general fund revenues decrease by $807,345 in fiscal 2017. TTF revenues decrease by $65,655 in fiscal 2017, and HEIF revenues decrease by $27,000. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit.

Exhibit 1
Fiscal Impact
Fiscal 2017-2021

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
General Fund	($807,345)	($807,345)	($807,345)	($807,345)	($807,345)
HEIF	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
TTF	(65,655)	(65,655)	(65,655)	(65,655)	(65,655)
State	*(59,352)*	*(59,352)*	*(59,352)*	*(59,352)*	*(59,352)*
Local	*(6,303)*	*(6,303)*	*(6,303)*	*(6,303)*	*(6,303)*
Total	**($900,000)**	**($900,000)**	**($900,000)**	**($900,000)**	**($900,000)**

Since there are well over 1,000 active apprentices in the State, and an individual or corporation may claim a credit of up to $1,000 for each eligible apprentice employed, it is assumed that MATC awards the maximum amount of credits each year. Since the credit is nonrefundable, some businesses may not have enough tax liability to claim the full credit, so this estimate assumes that 10% of credits are not claimed. This estimate also assumes that 50% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $32,000 in fiscal 2017 to add the credit to the personal and corporate income tax credit form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

DLLR's general fund expenditures increase by $218,420 in fiscal 2017, which reflects the bill's July 1, 2016 effective date. This estimate reflects the cost of hiring an administrator to oversee the program, one part-time administrative specialist to assist with processing applications, and $100,000 to create a database to track applications and coordinate with the Comptroller's Office.

The estimate includes salaries, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Regular Positions	1.5
Regular Salary and Fringe Benefits	$106,316
One-time Start-up Costs	108,726
Operating Expenses	3,378
DLLR Expenditures	**$218,420**
Comptroller Expenditures	**32,000**
Total FY 2017 State Expenditures	**$250,420**

Future year expenditures reflect annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Revenues: Local highway user revenues decrease by approximately $6,303 annually beginning in fiscal 2017 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mel/jrb

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