

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 54
Ways and Means

(Delegate Haynes)

Income Tax Credit - Student Employees

This bill creates a tax credit against the State income tax for business entities that employ student employees. The amount of the credit is equal to the cost of employing a student employee during the taxable year, not to exceed the lesser of \$1,000 for each eligible student employee or \$5,000.

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

Fiscal Summary

State Effect: Potential significant decrease in general fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues beginning in FY 2017 due to tax credits claimed against the personal and corporate income tax. General fund expenditures increase by \$52,000 in FY 2017 for one-time tax form change and computer programming modifications at the Comptroller's Office.

Local Effect: Local highway user revenues decrease beginning in FY 2017 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal. Small businesses that employ eligible students may benefit from claiming the tax credit.

Analysis

Bill Summary: The bill creates a tax credit against the State income tax for a business entity that employs a student employee during the taxable year. A business entity is a person conducting or operating a trade or business in the State or a specified nonprofit

organization. A student employee is an individual between the ages of 14 and 19 years old that attends a regular full-time public or private high school in the State in which at least 80% of the registered students are eligible for the federal free or reduced-price meal program. The student employee must work for the business entity for at least three months during the taxable year and at least 20 hours each week during the period of employment. The business entity must provide the Comptroller with specified documentation. The value of the credit may not exceed the lesser of \$1,000 for each eligible student employee or \$5,000. The credit is nonrefundable, except for specified nonprofit organizations, and the credit may not be carried over to any other taxable year.

Current Law: No State tax credit of this type exists for employing students, 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.

Background: The Maryland State Department of Education indicates that the only schools with 80% of students eligible for free and reduced-price meals are Baltimore City schools. The federal Community Eligibility Provision is a provision from the Healthy, Hunger-Free Kids Act of 2010 that allows schools and local educational agencies with high poverty rates to provide free breakfast and lunch to all students. Under the Community Eligibility Provision, all Baltimore City students qualify for free and reduce-price meals.

State Revenues: Tax credits may be claimed beginning in tax year 2016. Accordingly, general fund, TTF, and HEIF revenues decrease by a potential significant amount beginning in fiscal 2017. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of businesses that claim credits, the number of eligible students employed at each business, and the amount of credits claimed.

Baltimore City Public Schools reports 22,341 students were enrolled in high school for the 2014-2015 school year. The U.S. Census Bureau estimates 14.4% of Baltimore City students between the ages of 16 to 19 years old were employed in 2014, and of students that worked, nationally 16.7% of students worked over 20 hours per week for at least 13 weeks. Based on that data, the Department of Legislative Services estimates the credit could cost \$600,000 if approximately 600 students are eligible as student employees. However, if a business employs more than five student employees, the credit is capped at \$5,000, and not every business has a tax liability exceeding the credit, so the amount of revenue loss cannot be reliably estimated at this time.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$52,000 in fiscal 2017 for data processing changes to the SMART

income tax return processing and imaging systems and systems testing. Additionally, the Comptroller's Office may incur potential additional costs to administer the tax credit.

Local Revenues: Local highway user revenues decrease beginning in fiscal 2017 as a result of credits claimed against the corporate income tax.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland State Department of Education, Baltimore City Public Schools, U.S. Census Bureau, Department of Legislative Services

Fiscal Note History: First Reader - January 22, 2016
md/jrb

Analysis by: Heather N. Ruby

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