

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 452 (Delegate Queen, *et al.*)
 Ways and Means

Income Tax Credits - Employer Child Care Center and Employer-Provided
 Child Care Services

This bill creates a tax credit against the State income tax for an individual or a corporation that incurs qualified expenses in order to establish a child care center that provides child care services for the children of the taxpayer’s employees. The bill also creates a tax credit against the State income tax for an individual or a corporation that compensates a child care provider who provides child care services for the children of the taxpayer’s employees or compensates a child care referral service for services provided to the taxpayer’s employees. Each year, the Maryland State Department of Education (MSDE) may approve in the aggregate \$1.0 million for each credit.

The bill takes effect July 1, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$1.8 million beginning in FY 2018 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$145,900 and Higher Education Investment Fund (HEIF) revenues decrease by \$60,000 in FY 2018. General fund expenditures increase by \$64,000 in FY 2018 due to one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$1,794,100)	(\$1,794,100)	(\$1,794,100)	(\$1,794,100)	(\$1,794,100)
SF Revenue	(\$205,900)	(\$205,900)	(\$205,900)	(\$205,900)	(\$205,900)
GF Expenditure	\$64,000	\$0	\$0	\$0	\$0
Net Effect	(\$2,064,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)

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

Local Effect: Local highway user revenues decrease by \$14,000 annually beginning in FY 2018. Expenditures are not affected.

Small Business Effect: Minimal. Qualifying small businesses that establish a child care center or provide child care services to employees would be positively impacted through lower income taxes.

Analysis

Bill Summary:

Employer Child Care Center Tax Credit

The nonrefundable credit is equal to 25% of the qualified expenses, not to exceed \$50,000 per taxpayer. Qualified expenses are the costs incurred to construct, renovate, or expand a child care center and the costs incurred to purchase equipment for a child care center. An individual or corporation must submit an application to MSDE, and MSDE must approve all applications that qualify for a tax credit certificate on a first-come, first-served basis. MSDE must notify a taxpayer within 45 days of receipt of the taxpayer's application of its approval or denial. If the aggregate tax credit certificate amounts awarded in a taxable year total less than \$1 million, any excess amount may be issued under tax credit certificates in the next taxable year. The credit may not be carried over to any other taxable year. By January 31 of each year, MSDE must report to the Comptroller and the General Assembly on specified items relating to the credit. MSDE must adopt regulations to implement the credit.

Employer-provided Child Care Services Tax Credit

The nonrefundable credit is equal to 25% of the compensation paid to child care providers, not to exceed \$1,250 per child, and 25% of the compensation paid to child care referral services. The tax credit certificate may not exceed \$50,000 per taxpayer. An individual who is self-employed is ineligible for the credit. An individual or corporation must submit an application to MSDE, and MSDE must approve all applications that qualify for a tax credit certificate on a first-come, first-served basis. MSDE must notify a taxpayer within 45 days of receipt of the taxpayer's application of its approval or denial. If the aggregate tax credit certificate amounts awarded in a taxable year total less than \$1 million, any excess amount may be issued under tax credit certificates in the next taxable year. The credit may not be carried over to any other taxable year. By January 31 of each year, MSDE must report to the Comptroller and the General Assembly on specified items relating to the credit. MSDE must adopt regulations to implement the credit.

Current Law: The federal employer-provided child care tax credit may be claimed for 25% of the qualified child care facility expenditures plus 10% of the qualified child care resource and referral expenditures paid or incurred by an employer during the tax year. The credit is limited to no more than \$150,000 per tax year.

Qualified child care expenditures are amounts paid or incurred to acquire, construct, rehabilitate, or expand depreciable (or amortizable) property to be used as part of a qualified child care facility of the taxpayer and that is not part of the principal residence of the taxpayer or any employee of the taxpayer. Qualified expenditures may also include the operating expenses of a qualified child care facility of the taxpayer, including expenses for employee training, scholarship programs, and increased compensation to employees with higher levels of child care training, or for contracting these services with a qualified child care facility to provide child care services to employees of the taxpayer. Qualified child care resource and referral expenditures are amounts paid or incurred under a contract to provide child care resource and referral services to employees of the taxpayer.

To qualify, a child care facility must meet several requirements, including the licensing of the facility as a child care facility and compliance with all state and local laws and regulations.

Background: During the 2016 interim, the Joint Committee on Children, Youth, and Families reviewed issues related to child care in Maryland. At the joint committee's request, the Department of Legislative Services reviewed the tax incentives available to taxpayers to assist with the costs of raising children and this review resulted in the report [Tax Incentives for Child and Dependent Care Expenses](#).

State Revenues: MSDE may approve a maximum of \$2.0 million in credits annually (\$1 million for each credit), and each credit may not exceed \$50,000 for each eligible taxpayer. As a result, general fund revenues decrease by \$1.8 million in fiscal 2018. TTF revenues decrease by \$145,942 in fiscal 2018, and HEIF revenues decrease by \$60,000. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credits.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2018-2022

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
General Fund	(\$1,794,058)	(\$1,794,058)	(\$1,794,058)	(\$1,794,058)	(\$1,794,058)
HEIF	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
TTF	(145,942)	(145,942)	(145,942)	(145,942)	(145,942)
<i>State</i>	<i>(131,931)</i>	<i>(131,931)</i>	<i>(131,931)</i>	<i>(131,931)</i>	<i>(131,931)</i>
<i>Local</i>	<i>(14,010)</i>	<i>(14,010)</i>	<i>(14,010)</i>	<i>(14,010)</i>	<i>(14,010)</i>
Total	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

It is assumed that MSDE awards the maximum amount of credits each year and that individuals and businesses have enough tax liability to claim the full credits. 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: MSDE can implement the bill with existing resources. The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$64,000 in fiscal 2018 to add the credits to the personal and corporate income tax credit forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

Local Revenues: Local highway user revenues decrease by approximately \$14,010 annually beginning in fiscal 2018, 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; Maryland State Department of Education; Internal Revenue Service; Department of Legislative Services

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