Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 883 (Delegate Queen, *et al.*)
Ways and Means

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

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This bill creates a tax credit against the State income tax for a taxpayer that incurs qualified expenses for a child care center that provides child care services for the children of the taxpayer's employees. The bill also creates a State income tax credit for a taxpayer 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. The amount of credits that the Maryland State Department of Education (MSDE) can award each year cannot exceed the amount of money appropriated to a reserve fund established by the bill. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: Potential significant general fund expenditure increase beginning in FY 2019. The amount of the expenditure increase depends on the amount of money, if any, appropriated to the reserve funds each year. If the credits are each funded at $1.0 million in employer child care services tax credits and $200,000 in employer child care center tax credits, general fund expenditures increase by $1.2 million beginning in FY 2019. Administrative costs increase by $145,700 in FY 2019. Revenues are not affected. **This bill establishes mandated appropriations beginning in FY 2020.**

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	$0	$0	$0	$0	$0
GF Expenditure	1,345,700	1,275,200	1,277,400	1,280,200	1,283,100
Net Effect	($1,345,700)	($1,275,200)	($1,277,400)	($1,280,200)	($1,283,100)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill establishes an Employer Child Care Center Tax Credit Reserve Fund and an Employer-Provided Child Care Services Tax Credit Reserve Fund. The Governor must include in the budget bill appropriations to these reserve funds each fiscal year. The total amount of tax credit certificates issued by MSDE in each fiscal year cannot exceed the amount appropriated to the reserve funds in the State budget. Any amount of money in the funds that are not expended in the fiscal year are rolled over into the next fiscal year.

The employer child care center tax 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.

The employer-provided child care services tax 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.

The bill specifies the application and approval process for each tax credit, which includes MSDE approving qualified applications on a first-come, first-served basis. MSDE must adopt regulations to implement the credits and the bill specifies reporting requirements for each credit. The credits are nonrefundable and may not be carried over to any other taxable year.

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 (DLS) 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.

The U.S. Bureau of Labor Statistics reported in March 2016, 11% of workers had access to a workplace program that provided for either the full or partial cost of caring for an employee's children in a nursery, day care center, or a babysitter in facilities either on or off the employer's premises.

State Fiscal Effect:

Appropriations to the Reserve Fund

It is unknown how much money the Governor will appropriate to the reserve funds in each year. Assuming the programs are funded at $1.0 million in employer child care services tax credits and $200,000 in employer child care center tax credits, general fund expenditures will increase by $1.2 million annually. To the extent that the Governor provides less or more money to the reserve funds in any year, the increase in general fund expenditures will be less or more, respectively.

Revenue Impacts

Within 15 days after the end of each calendar quarter, MSDE is required to notify the Comptroller of each credit certificate issued during the quarter. Upon this notification, the Comptroller is required to transfer from the reserve funds to the general fund the total amounts stated in the credit certificates that were issued during the quarter.

It is assumed that taxpayers claim the credits in the tax year that corresponds to the fiscal year in which the Comptroller transfers funds to the general fund on notification of a certified credit. To the extent that taxpayers claim the credits or adjust estimated quarterly payments or withholdings in a different fiscal year from when the transfer is made, general fund revenues could increase in these fiscal years and potentially decrease by a corresponding amount in later fiscal years. This timing issue, however, does not alter the total overall cost of the bill.

Administrative Expenditures

Although the Comptroller's Office did not respond to requests for information about the potential fiscal impact of this bill, DLS assumes the Comptroller's Office will incur a one-time expenditure increase of $66,000 in fiscal 2019 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.

General fund expenditures at MSDE increase by $79,690 in fiscal 2019, which accounts for the bill's July 1, 2018 effective date. This estimate reflects the cost of hiring one tax credit administrator to administer the two tax credits. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$74,175
Operating Expenses	5,515
MSDE Expenditures	**$79,690**
Comptroller Expenditures	**66,000**
Total FY 2019 State Expenditures	**$145,690**

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expense.

Additional Information

Prior Introductions: A similar bill, HB 452 of 2017, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Maryland State Department of Education; Department of Budget and Management; Internal Revenue Service; U.S. Bureau of Labor Statistics; Department of Legislative Services

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