

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 896 (Delegate Rose, *et al.*)
Ways and Means

Income Tax Credit - Small Businesses - Student Interns and Apprentices

This bill creates a tax credit against the State income tax for a small business that employs a high school or college intern or an apprentice who works for at least 20 hours each week for at least three months during the taxable year. The amount of the credit is equal to the lesser of \$2,500 for each eligible intern or apprentice hired or \$7,500. **The bill takes effect July 1, 2019, and applies to tax year 2019 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 2020 due to tax credits claimed against the personal and corporate income tax. Under one set of assumptions, general fund, TTF, and HEIF revenues decrease by approximately \$16 million annually. TTF expenditures decrease beginning in FY 2020. General fund expenditures for the Comptroller's Office increase by \$88,600 in FY 2020 and by \$55,100 in FY 2024.

Local Effect: Local highway user revenues decrease beginning in FY 2020 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Potential Meaningful.

Analysis

Bill Summary: A small business is an individual, partnership, limited partnership, limited liability partnership, limited liability company, or a corporation that employs 50 or fewer full-time employees. The small business must provide the Comptroller with specified documentation. The credit is nonrefundable, except for specified nonprofit organizations, and the credit may not be carried over to any other taxable year.

Current Law: Under the More Jobs for Marylanders Program, there is 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 registered with the Maryland Apprenticeship and Training Council. The income tax credit is equal to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. The credit may be carried forward to succeeding tax years until the full amount of the credit is claimed. The taxpayer claiming the credit must attach specified proof of eligibility to the taxpayer's return, and the Department of Labor, Licensing, and Regulation (DLLR) may approve tax credits of up to \$500,000 annually. DLLR advises that 95 businesses have been approved for tax credits for 292 apprentices since the program's inception.

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: 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 journeyman 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. At the end of calendar 2017, there were 9,532 apprentices registered, of which 3,288 were new apprentices registered, and there were 3,668 participating employers.

State Revenues: Tax credits may be claimed beginning in tax year 2019. Accordingly, general fund, TTF, and HEIF revenues decrease by a potential significant amount beginning in fiscal 2020. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of small businesses that claim credits, the number of eligible students and apprentices employed at those small businesses, the amount of credits claimed, and the tax liability of small businesses claiming the credit.

Almost 28% of employees work for small businesses. Assuming there are 30,000 interns and 1,900 eligible apprentices in the State and that 28% of them work for small businesses, the Comptroller's Office estimates that income tax revenues will decrease by approximately \$16.0 million annually. This estimate assumes 80% of eligible businesses participate in the tax credit program. However, the Department of Legislative Services

notes that the bill does not define an internship or apprenticeship so the fiscal impact could vary significantly. The current apprenticeship tax credit defines an eligible apprentice as an individual who is enrolled in an apprenticeship training program registered with the Maryland Apprenticeship and Training Council.

State Expenditures: General fund expenditures increase by \$88,573 in fiscal 2020, which accounts for the bill’s July 1, 2019 effective date. This estimate reflects the cost of hiring one revenue specialist within the Comptroller’s Office to administer and verify the credit and a one-time expenditure increase of \$34,000 to add the credit to the personal and corporate income tax credit form. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salaries and Fringe Benefits	\$49,058
Tax Programming Costs	34,000
Operating Expenses	<u>5,515</u>
Total FY 2020 State Expenditures	\$88,573

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

A portion of TTF revenues are used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate income tax revenues results in a 13.5% decrease in TTF expenditures to local governments. TTF revenues also fund the State capital program; thus, a decrease in TTF revenues decreases expenditures for the State capital program.

Local Revenues: Local governments receive a portion of corporate income tax revenues as local highway user revenues through capital transportation grants. Local highway user revenues decrease beginning in fiscal 2020 as a result of credits claimed against the corporate income tax.

Small Business Effect: Small businesses that employ interns or apprentices benefit by receiving a tax credit equal to the lesser of \$2,500 for each eligible intern or apprentice hired or \$7,500. There are approximately 100,905 firms in Maryland with fewer than 50 employees, but it is unknown how many of these businesses will hire interns or apprentices and whether these businesses will have sufficient tax liability to claim the credit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Maryland Higher Education Commission; Department of Labor, Licensing, and Regulation; U.S. Census Bureau; Department of Legislative Services

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Analysis by: Heather N. Ruby

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