

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1232
(Delegate Queen)
Ways and Means

**Income Tax Credits - Employer Child Care Centers and Employer-Provided
Child Care Services**

This bill creates a nonrefundable credit against the State income tax for a taxpayer who incurs qualified expenses for an eligible employer child care center. The bill also creates a nonrefundable State income tax credit for the eligible costs of employer-provided child care services. The amount of credits that the Maryland State Department of Education (MSDE) can award each year cannot exceed the amount of money appropriated to the reserve funds established by the bill. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund expenditures may increase significantly beginning in FY 2021 due to tax credit reserve fund appropriations. The amount of the expenditure increase depends on the amount of money appropriated to the reserve funds each year. Based on tax credit activity for a similar program in another state, general fund expenditures may increase by \$15.0 million beginning in FY 2021. Administrative costs increase by \$154,500 in FY 2021 and by \$98,700 in FY 2025. Revenues are not materially affected.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	15.2	15.1	15.1	15.1	15.1
Net Effect	(\$15.2)	(\$15.1)	(\$15.1)	(\$15.1)	(\$15.1)

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

Local Effect: Local highway user revenues decrease to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

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 an appropriation to these reserve funds each fiscal year but the bill does not specify an amount. 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 100% of the qualified child care property expenses incurred by a taxpayer. Qualified expenses are the costs of real or tangible property used to construct, improve, or expand an eligible child care center. The taxpayer must own the property and be licensed to operate a child care center. Subject to specified exceptions, at least 95% of the children at the child care center must be the children of the taxpayer's employees.

Tax credits may not exceed 50% of the taxpayer's tax liability imposed in the tax year and may be claimed over a 10-year period beginning with the year in which the taxpayer places the eligible property in service. A taxpayer may not also claim any tax credit for the cost of operating the property.

The employer-provided child care services tax credit is equal to 75% of the operational costs incurred to provide child care services to employees or to compensate a child care provider who provides these services. Operational costs do not include the costs of operating a property. The amount of the credit must be reduced by the amount paid by the employees for the provision of these services and may not exceed 50% of the tax liability imposed in the tax year. An self-employed individual is ineligible for the credit.

MSDE must (1) administer the tax credits and approve qualified applications on a first-come, first-served basis; (2) adopt regulations implementing the bill; and (3) report annually to the General Assembly specified information about the credits.

Current Law/Background: 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.

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.

Several states have also established tax credits for employer-provided child care services and related expenses. Georgia's tax credit, which is similar to the one proposed by the bill, awarded a total of \$23.0 million in tax credits in fiscal 2018.

State Fiscal Effect: The bill establishes the Employer Child Care Center Tax Credit and an Employer-Provided Child Care Services Tax Credit Program within MSDE and requires the Governor to include an appropriation to the reserve funds established by the bill. As a result, the net effect may be a general fund expenditure increase of \$15.2 million in fiscal 2021.

Appropriations to the Reserve Fund

In each fiscal year, the Governor must appropriate funds to the tax credit reserve funds established by the bill but the bill does not require or suggest an amount. Based on recent tax credit activity in Georgia, general fund expenditures may increase by a total of \$15.0 million annually beginning in fiscal 2021 for these tax credit reserve fund appropriations.

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.

Maryland State Department of Education

MSDE requires one program administrator to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$98,500 in fiscal 2021. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2020. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$92,929
Other Operating Expenses	5,525
Total FY 2021 Expenditures	\$98,454

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

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$56,000 in fiscal 2021 to add the tax credit to personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: Similar legislation was introduced in the 2017 and 2018 sessions. HB 883 of 2018 and HB 452 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Internal Revenue Service; Maryland State Department of Education; Department of Legislative Services

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an/jrb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:

(410) 946-5510

(301) 970-5510