

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1457

Ways and Means

(Delegate Feldmark)

Budget and Taxation

Apprenticeship Start-Up Act of 2020

This bill extends the termination date of the apprenticeship income tax credit by five years and alters the tax credit program by altering the definition of an apprentice, increasing the credit from \$1,000 to \$3,000 for each eligible apprentice under specified circumstances, and limiting the amount of credits that can be claimed by a taxpayer. The bill also removes the \$500,000 annual cap on the program and creates an apprenticeship tax credit reserve fund. The Governor must include in the annual budget bill an appropriation to the fund and the amount of credits that the Maryland Department of Labor (MDL) can award each year cannot exceed the amount appropriated to the fund. **The bill takes effect June 1, 2020, and applies to tax year 2020 through 2024.**

Fiscal Summary

State Effect: General fund expenditures increase in FY 2021 through 2025, but the amount of the increase depends on the amount of money appropriated to the reserve fund each year. If the credit is funded at the amount of the cap on the current program, general fund expenditures may increase annually by \$500,000 in FY 2021 through 2025. Revenues are not affected.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: An eligible apprentice is an individual in an apprenticeship program registered with the Maryland Apprenticeship and Training Council that meets specified

requirements. The eligible apprentice must have been employed by the taxpayer for at least 450 hours of the taxable year through a youth apprenticeship program or been employed by the taxpayer for at least seven full months of the taxable year and receive an apprenticeship wage of at least 50% of the prevailing wage if there is an applicable prevailing wage rate.

With respect to the first five eligible apprentices for whom the taxpayer claims the credit, the credit is \$3,000 for each eligible apprentice if the eligible apprentice is not employed through a youth apprenticeship program. Otherwise, the credit is \$1,000 for each eligible apprentice.

MDL may not certify more than \$15,000 of tax credits in the taxable year for any taxpayer. The bill specifies the application and certification process and how the reserve fund is administered. Tax credit applications are approved on a first-come, first-served basis.

Current Law: Under the More Jobs for Marylanders Program, there is a 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 for the first year of employment of an eligible apprentice and 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 MDL may approve tax credits of up to \$500,000 annually. The tax credit terminates January 1, 2020.

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 journeyperson 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.

As of November 2019, there were 10,711 apprentices registered, of which 3,612 were new apprentices registered, and there were 3,820 participating employers and 158 program sponsors.

MDL issued 229 certifications for businesses to receive the apprenticeship tax credit in tax year 2017 and 346 certifications for businesses to receive the tax credit in tax year 2018.

MDL has issued 32 certifications as of January 2020 for tax year 2019, but expects that number to increase as more taxpayers file their 2019 tax returns.

In fiscal 2019, the Comptroller's Office reports 95 taxpayers claimed apprenticeship tax credits of \$137,322.

State Expenditures: It is unknown how much money the Governor will appropriate to the reserve fund in each year. Assuming the program is funded at \$500,000 (the program's cap under current law), general fund expenditures increase by \$500,000 annually through fiscal 2025. To the extent that the Governor provides less or more money to the reserve fund in any year, the increase in general fund expenditures will be less or more, respectively. Although discretionary, it is assumed that funding is provided in fiscal 2021.

Administrative Expenditures

The Comptroller's Office can implement the bill with existing resources. MDL reports it needs one tax credit processor to certify tax credits, but the Department of Legislative Services advises that MDL staff who currently approve apprenticeship tax credits are funded by a federal grant and are permitted to do so because it is within the scope of the federal grant project. Assuming the federal funding continues and staff can administer the program with federal funds, MDL can administer the program with existing resources. However, if the federal grant ends or the scope of the grant changes, MDL may need a tax credit processor to certify credits through fiscal 2025.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 751 (Senator Rosapepe) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Budget and Management; Maryland Department of Labor; Department of Legislative Services

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