

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 2
 Ways and Means

(Delegate Luedtke)

Budget and Taxation

Income Tax – Work Opportunity Tax Credit

This bill creates a nonrefundable credit against the State income tax for up to 50% of the federal Work Opportunity Tax Credit claimed by an employer with respect to a qualified individual who is employed in the State. Any unused amount of the credit may not be carried forward to any other tax year. The Department of Legislative Services (DLS) must evaluate the tax credit program and report its findings to the General Assembly by December 31, 2028. **The bill takes effect July 1, 2022, and applies to tax years 2022 through 2028.**

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund revenues decrease by \$26.8 million in FY 2023. The FY 2023 general fund revenue loss is accounted for by the \$350.0 million in tax relief assumed in the FY 2023 budget. Future year estimates reflect the forecasted growth in the federal tax credit, adjusted for Maryland. General fund expenditures increase by \$40,000 at the Comptroller’s Office, and TTF expenditures decrease by less than \$500,000 in FY 2023.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$21.3)	(\$22.1)	(\$22.8)	(\$23.5)	(\$23.9)
SF Revenue	(\$5.5)	(\$5.7)	(\$5.9)	(\$6.1)	(\$6.2)
GF Expenditure	\$0.0	\$0	\$0	\$0	\$0
SF Expenditure	(\$0.5)	(\$0.5)	(\$0.4)	(\$0.4)	(\$0.4)
Net Effect	(\$26.3)	(\$27.3)	(\$28.3)	(\$29.1)	(\$29.7)

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

Local Effect: Local highway user revenues decrease by less than \$500,000 annually in FY 2023 through 2027. Local income tax revenues may increase beginning in FY 2023 to the extent State tax credits are claimed against the personal income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The amount of the credit excludes any amount of the federal credit that is carried back or forward from another tax year.

Under the federal income tax, a person generally may not deduct the wages or salaries paid or incurred of an individual if the employer claimed the federal credit with respect to the wages or salaries. Maryland law allows a subtraction modification against federal adjusted gross income or Maryland modified income for the salary or wages paid that are disallowed under the federal income tax. The bill requires that this subtraction modification be reduced by the amount of the State tax credit claimed under the bill.

Current Law: The Work Opportunity Tax Credit is a federal income tax credit available to employers for hiring individuals who are considered to face significant barriers to employment. Employers may claim the credit for employees who begin work before January 1, 2026. In the first year of employment, employers can claim a credit equal to 40% of the first \$6,000 of wages paid to an employee who is certified by a state workforce agency as being a member of a targeted group.

The targeted groups for the credit include (1) an individual who receives or whose family receives Temporary Assistance for Needy Families; (2) veterans; (3) residents of an empowerment zone or rural renewal county; (4) the formerly incarcerated or those convicted of a felony; (5) individuals experiencing long-term unemployment; (6) supplemental Social Security income recipients; (7) individuals whose families are recipients of Supplemental Nutrition Assistance Program benefits; and (8) an individual who is a vocational rehabilitation referral certified to have a physical or mental disability.

It is estimated that the tax credit will decrease federal revenues by about \$3.2 billion annually in the next several federal fiscal years. The Maryland Department of Labor advises that in calendar 2021 a total of 56,700 Maryland companies participated in the tax credit program.

Several existing State and federal programs also provide tax credits to promote employment generally, within certain geographic areas of the State, and for targeted populations. State tax credits include the enterprise zone employment income tax credit and the enhanced job creation income tax credit for hiring a qualified veteran.

State Revenues: Tax credits may be claimed beginning in tax year 2022. As a result, net State revenues will decrease by \$26.8 million in fiscal 2023 and by \$30.2 million in fiscal 2027. This estimate is based on the projected cost of the federal tax credit, adjusted for Maryland and the provisions of the bill. **Exhibit 1** shows the estimated net impact of the bill on State revenues.

Exhibit 1
State Revenue Impact
Fiscal 2023-2027
(\$ in Millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
General Fund	(\$21.3)	(\$22.1)	(\$22.8)	(\$23.5)	(\$23.9)
HEIF	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
TTF	(3.9)	(4.1)	(4.2)	(4.3)	(4.4)
Total	(\$26.8)	(\$27.9)	(\$28.7)	(\$29.6)	(\$30.2)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

Source: Department of Legislative Services

State Expenditures: A portion of TTF revenues is used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate tax revenues results in a 13.5% decrease in TTF expenditures to local governments (9.6% beginning in fiscal 2025). Accordingly, TTF expenditures decrease by less than \$500,000 annually in fiscal 2023 through 2027.

The Comptroller’s Office reports that it will incur a one-time general fund expenditure increase of \$40,000 in fiscal 2023 to add the tax credit to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

DLS can conduct the required tax credit evaluation using existing budgeted resources.

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 by less than \$500,000 annually in fiscal 2023 through 2027. Local income tax revenues may increase beginning in fiscal 2023 to the extent State tax credits are claimed against the personal income tax.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 598 (Senator Guzzone, *et al.*) - Budget and Taxation.

Information Source(s): Comptroller's Office; Maryland Department of Labor; U.S. Joint Committee on Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 23, 2022
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