

**Department of Legislative Services**  
Maryland General Assembly  
2023 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 197

(Senator Hettleman)

Finance

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**Four-Day Workweek Pilot Program and Income Tax Credit - Established (Four-Day Workweek Act of 2023)**

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This bill establishes the Four-Day Workweek Pilot Program in the Maryland Department of Labor (MDL) for the purpose of promoting, incentivizing, and supporting the experimentation and study of the use of a four-day workweek by private and public employers. An application to participate in the program must include a proposed transition from a five-day workweek to a four-day workweek for at least 30 employees. Businesses that participate in the program for at least one year and submit a related report to MDL are eligible for an income tax credit. MDL may issue up to \$750,000 in aggregate income tax credit certificates each fiscal year; there is an overall limit of two credit certificates per business. For fiscal 2025 through 2028, the Governor must include in the annual budget bill an appropriation of \$250,000 to MDL for program activities. **The bill takes effect July 1, 2023, applies to tax years 2023 through 2027, and terminates June 30, 2028.**

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**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$937,500 annually from FY 2025 through 2028, under the assumptions discussed below. General fund expenditures increase by \$288,300 in FY 2024 and by \$250,000 annually from FY 2025 through 2028. **This bill establishes a mandated appropriation from FY 2025 through 2028.**

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	\$0	(\$937,500)	(\$937,500)	(\$937,500)	(\$937,500)
GF Expenditure	\$288,300	\$250,000	\$250,000	\$250,000	\$250,000
Net Effect	(\$288,300)	(\$1,187,500)	(\$1,187,500)	(\$1,187,500)	(\$1,187,500)

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

**Local Effect:** The bill does not materially affect local government finances or operations.

**Small Business Effect:** Minimal.

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## **Analysis**

### **Bill Summary:**

#### *General Maryland Department of Labor Responsibilities*

MDL must:

- administer the program, including the tax credit authorized under the bill;
- encourage governmental units to institute a four-day workweek;
- study and gather information on the impact of the program on qualifying employers and governmental units;
- conduct and promote research on four-day workweeks that exist outside the program, including four-day workweeks established internationally;
- facilitate public discussion with qualifying employers and governmental units that have instituted a four-day workweek; and
- publish the data and reports required under the bill.

MDL may adopt regulations to carry out the bill.

#### *Application and Acceptance Process*

An employer may apply to MDL to participate in the program. In addition to any other information required by MDL, the application must include a proposal to transition the applicant's workforce or a division of the applicant's workforce from a five-day workweek to a four-day workweek. The proposal must apply to at least 30 employees and include information indicating that the applicant did not have any prior intention of transitioning its workforce or a division of its workforce in such a way. MDL may accept an application for participation in the program if the applicant enters an agreement:

- providing that an employee transitioning to a four-day workweek will not receive a reduction in pay or benefits; and
- allowing MDL to research the impact of transitioning to a four-day workweek through employee surveys, interviews, and other information gathering.

#### *Tax Credits*

MDL may issue a tax credit certificate to a qualifying employer that participates in the program for at least one year and submits a report to the department detailing its transition to a four-day workweek. Each qualifying employer may be issued a maximum of two credit

certificates. Before issuing a tax credit certificate, MDL must confirm that the qualifying employer has maintained compliance with its proposal to participate in the program.

MDL must determine the amount of the tax credit certificate but has options within that general requirement that allow for different credit amounts for different businesses. Specifically, MDL may determine the amount stated on a tax credit certificate using any combination of:

- a fixed dollar amount for each qualifying employer;
- a fixed dollar amount for each employee of the qualifying employer participating in the program;
- a percentage of the wages paid to each employee of the qualifying employer participating in the program; or
- a dollar amount that assists in offsetting a qualifying employer's costs to hire new employees due to the qualifying employer's participation in the program.

For each fiscal year, MDL may not issue tax credit certificates for credit amounts in the aggregate totaling more than \$750,000. If the aggregate amount of tax credit certificates issued during a fiscal year totals less than \$750,000, any excess amount may be issued in a subsequent fiscal year.

The department must adopt regulations establishing related criteria and procedures.

#### *Reporting*

By January 31 each year, MDL must provide a report to the Comptroller that identifies each employer issued a tax credit certificate during the preceding year and the amount of each certificate.

By December 1 each year, MDL must submit a report to the Governor and the General Assembly on the status of the program, as specified. MDL must also publish the reports required under the bill on its website, along with the details of the qualifying employers' four-day workweek proposals.

**Current Law:** None applicable.

**State Revenues:** MDL may issue a tax credit certificate to a qualifying employer that participates in the program for at least one year and submits a report to the department detailing its transition to a four-day workweek. Since MDL cannot issue certificates for fiscal 2024 due to the bill's timing requirements, that year's \$750,000 credit allocation is assumed to be spread evenly across the four remaining years of the pilot program.

Accordingly, this estimate assumes MDL issues \$937,500 in tax credit certificates annually from fiscal 2025 through 2028, with resulting credits claimed in each fiscal year. Tax liability is assumed to be sufficient in each year for businesses to receive the full amount of the credit.

Therefore, general fund revenues decrease by \$937,500 annually from fiscal 2025 through 2028 due to tax credits taken under the bill. Credits are assumed to be taken against the personal income tax. To the extent tax credits are claimed against the corporate income tax, a portion of tax credits claimed will instead decrease Transportation Trust Fund and Higher Education Investment Fund revenues.

**State Expenditures:** In addition to generally administering the program, including the tax credit certification process, MDL must undertake and promote certain other research and reporting activities, facilitate public discussion, and publish data and reports. MDL requires additional staff and related expenses for these activities, which begin in fiscal 2024.

Accordingly, general fund expenditures increase by \$263,331 in fiscal 2024, which accounts for the bill's July 1, 2023 effective date. This estimate reflects the cost of hiring three contractual staff to administer the program: one investigator; one program manager; and one office services clerk. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. It also includes an allocation for existing federally funded legal and program staff to assist on a limited basis and \$35,000 in annual contractual expenditures for data analysis.

Contractual Positions	3.0
Salaries and Fringe Benefits	\$177,670
Existing Staff Cost Allocation	22,102
Data Analysis	35,000
Other Operating Expenses	<u>28,559</u>
<b>Total FY 2024 State Expenditures</b>	<b>\$263,331</b>

Future year expenditures of \$250,000 from fiscal 2025 through 2028 reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses and the elimination of one-time and legal costs to match the general fund mandated appropriation in those years.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

General fund expenditures for the Comptroller's Office increase by \$25,000 in fiscal 2024 for a one-time programming expense.

The bill does not directly affect expenditures by other State agencies; however, several agencies noted that changes to a four-day workweek would be challenging, impractical, and/or expensive due to their unique operations and others noted the need for negotiation with unions over what constitutes a standard workweek.

**Additional Comments:** The bill does not specify the methodology to be used to determine the tax credit, nor does it define strict parameters for how an employer must structure a qualifying four-day workweek pilot (including the number of hours worked). MDL anticipates establishing the final tax credit methodology during the first year of the program based on employer proposals and full consideration of the varying effects of the tax credit on different sectors.

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## Additional Information

**Prior Introductions:** None.

**Designated Cross File:** HB 181 (Delegate Stewart, *et al.*) - Economic Matters and Ways and Means.

**Information Source(s):** Maryland Department of Labor; Comptroller's Office; Judiciary (Administrative Office of the Courts); University System of Maryland; Department of Budget and Management; Maryland Department of Health; Department of Juvenile Services; Department of Public Safety and Correctional Services; Department of State Police; Maryland Department of Transportation; Maryland Association of Counties; Maryland Municipal League; Department of Legislative Services

**Fiscal Note History:** First Reader - February 6, 2023  
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Analysis by: Stephen M. Ross

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