

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 33 (Delegate J. Lewis)
 Ways and Means and Economic Matters

Economic Development - Entrepreneurial Leave Tax Credit Program

This bill creates a nonrefundable tax credit against the State income tax for a business that is certified by the Department of Commerce as permitting at least one employee to take at least six months of unpaid entrepreneurial leave, for the purpose of establishing an employee business or expanding an employee business within which the employee has an ownership interest. Commerce may award a maximum of \$250,000 in tax credits annually to businesses certified as meeting the program’s requirements. Commerce must promote entrepreneurial leave policies and the program to employers across the State, conduct research, provide business support and resources to employees who take entrepreneurial leave through the program, and facilitate discussions and provide educational resources for employers regarding the program. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by up to \$250,000 annually beginning in FY 2025. To the extent credits are claimed against the corporate income tax, Higher Education Investment Fund (HEIF) revenues and Transportation Trust Fund (TTF) revenues and expenditures are also affected (not shown below). General fund expenditures increase by \$78,000 in FY 2025; future years reflect annualization and ongoing costs.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)
GF Expenditure	\$78,000	\$92,800	\$96,900	\$101,200	\$105,600
Net Effect	(\$328,000)	(\$342,800)	(\$346,900)	(\$351,200)	(\$355,600)

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

Local Effect: Local highway user revenues may decrease by a minimal amount beginning in FY 2025 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 specifies stipulations of the tax credit and the tax credit application, certification, and claiming process, which includes the Secretary of Commerce approving qualifying tax credit certificate applications on a first-come, first-served basis.

Commerce must determine the amount of the tax credit that a qualified employer may claim based on:

- the duration of the entrepreneurial leave that an employee is permitted to take by the employer;
- the number of employees that take entrepreneurial leave;
- the adherence of the employee and the employer to stipulations in the tax credit application; and
- any other factors that Commerce determines necessary.

Commerce may revoke a tax credit certificate under specified circumstances, and if it does so, the Comptroller may make an assessment against the qualified employer to recapture the tax credit or other benefit that the employer has received. The bill specifies annual reporting requirements for Commerce, and the Secretary of Commerce may establish by regulations any other requirements necessary and appropriate to carry out the bill.

Current Law: No State income tax credit of this type exists for employers providing entrepreneurial leave, but the State provides a tax credit to small businesses that provide paid sick and safe leave, the Small Business Relief Tax Credit. Chapter 571 of 2018 created a refundable credit against the State income tax for a small business that employs 14 or fewer employees and provides paid sick and safe leave in accordance with the Maryland Healthy Working Families Act to a qualified employee. A qualified employee is one who earns 250% or less of the annual federal poverty guidelines for a single-person household. The credit is the lesser of \$500 for each qualified employee or the total amount of qualified employer benefits accrued by qualified employees. Commerce may issue tax certificates not exceeding \$5 million annually.

State Revenues: General fund revenues decrease by up to \$250,000 annually due to credits claimed against the State income tax. To the extent credits are claimed against the corporate income tax, a portion of the foregone tax revenues will reduce HEIF and TTF revenues.

State Expenditures:

Department of Commerce

General fund expenditures for Commerce increase by \$78,008 in fiscal 2025, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one program administrator to process tax credit applications, conduct research and outreach, and assist in developing regulations. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$70,752
Operating Expenses	<u>7,256</u>
Total FY 2025 Commerce Expenditures	\$78,008

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

Comptroller's Office

The Comptroller's Office advises that five additional full-time employees are needed to implement the bill, which include one revenue examiner to validate or recapture tax credits, two financial compliance auditors to ensure businesses have not misrepresented information, one senior tax attorney to collaborate on regulations and monitor compliance with the use of confidential tax information, and one information technology programmer to create and program new forms. However, the Department of Legislative Services assumes only a small number of businesses will claim the credit and, thus, the Comptroller's Office can likely implement the bill with existing resources.

Highway User Revenue Grants

A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues). Thus, TTF expenditures for highway user revenue grants to local governments decrease by a minimal amount beginning in fiscal 2025 to the extent credits are claimed against the corporate income tax.

Local Revenues: Local highway user revenues decrease by a minimal amount beginning in fiscal 2025 to the extent credits are claimed against the corporate income tax.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Department of Commerce; Comptroller's Office; Department of Legislative Services

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km/jrb

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