

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 489
 Ways and Means

(Delegate Haynes, *et al.*)

Income Tax Credit - Student Employees

This bill creates a credit against the State income tax for a business entity that employs a student employee. A student employee is an individual who attends as a regular full-time student a public or private high school in the State in which at least 80% of the registered students are eligible for the federal free or reduced-price meal program. The student employee must be at least 14 years old but under the age of 19. The amount of the credit is equal to the cost of employing a student employee during the taxable year, not to exceed the lesser of \$1,000 for each eligible student employee or \$5,000. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues decrease by approximately \$950,000 in FY 2021 due to tax credits claimed against the personal and corporate income tax. Future year estimates reflect growth in student enrollment. General fund expenditures for the Comptroller’s Office increase by \$58,500 and TTF expenditures decrease by \$6,500 in FY 2021.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$881,500)	(\$897,400)	(\$913,500)	(\$930,000)	(\$946,700)
SF Revenue	(\$68,500)	(\$69,700)	(\$71,000)	(\$72,200)	(\$73,500)
GF Expenditure	\$58,500	\$34,300	\$35,000	\$36,200	\$37,500
SF Expenditure	(\$6,500)	(\$6,700)	(\$6,800)	(\$6,900)	(\$5,000)
Net Effect	(\$1,002,000)	(\$994,700)	(\$1,012,700)	(\$1,031,500)	(\$1,052,700)

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

Local Effect: Local highway user revenues decrease by approximately \$6,500 in FY 2021 and \$5,000 in FY 2025 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill creates a credit against the State income tax for a business entity that employs a student employee during the taxable year. A business entity is a person conducting or operating a trade or business in the State or a specified nonprofit organization. The student employee must work for the business entity for at least three months during the taxable year and at least 20 hours each week during the period of employment. The business entity must provide the Comptroller with specified documentation. The credit is nonrefundable, except for specified nonprofit organizations, and the credit may not be carried over to any other taxable year.

Current Law: No State tax credit of this type exists for employing students, but the State previously provided a tax credit program for approved work-based learning programs for students, which abrogated on June 30, 2013. The program allowed approved employers to claim tax credits in the amount of 15% of the wages paid to secondary or postsecondary students between 16 and 23 years of age who participated in work-based learning programs. The total credit claimed per student could not exceed \$1,500 for all tax years.

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 equal to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. The Maryland Department of Labor may approve tax credits of up to \$500,000 annually through tax year 2019.

Background: The federal Community Eligibility Provision is a provision from the Healthy, Hunger-Free Kids Act of 2010 that allows schools and local educational agencies with high poverty rates to provide free breakfast and lunch to all students. Under this provision, all students in Dorchester and Somerset counties and Baltimore City qualify for free and reduced-price meals.

State Revenues: Tax credits may be claimed beginning in tax year 2020. Accordingly, general fund, TTF, and HEIF revenues decrease beginning in fiscal 2021 to the extent businesses employ eligible high school students and claim the credit. The Department of Legislative Services (DLS) estimates there are approximately 27,000 students enrolled in high schools at which 80% of the registered students are eligible for the federal free or reduced-price meal program. The U.S. Census Bureau estimates approximately 19% of Baltimore City students and approximately 27% of students elsewhere in the State between the ages of 16 to 19 years old were employed in 2018. Of students that worked, nationally approximately 17% of students worked over 20 hours per week for at least 13 weeks. Based on that data, DLS estimates the credit could cost approximately \$950,000 if approximately 950 students are eligible as student employees. However, if a business employs more than

5 student employees, the credit is capped at \$5,000, and not every business may have tax liability that exceeds the credit, so the amount of revenue loss may be less than estimated.

The estimate assumes that 65% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax. As a result, general fund revenues decrease by \$881,500, TTF revenues decrease by \$48,500, and HEIF revenues decrease by \$20,000 in fiscal 2021. Future year estimates reflect student enrollment growing 1.8% annually. **Exhibit 1** shows the estimated State fiscal impacts resulting from the tax credit.

Exhibit 1
Fiscal Impact of Legislation
Fiscal 2021-2025

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
General Fund	(\$881,500)	(\$897,400)	(\$913,500)	(\$930,000)	(\$946,700)
HEIF	(20,000)	(20,300)	(20,700)	(21,000)	(21,400)
TTF	(48,500)	(49,400)	(50,300)	(51,200)	(52,100)
Total Revenues	(\$950,000)	(\$967,100)	(\$984,500)	(\$1,002,200)	(\$1,020,200)
TTF Expenditures	(\$6,500)	(\$6,700)	(\$6,800)	(\$6,900)	(\$5,000)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

State Expenditures: General fund expenditures increase by \$58,465 in fiscal 2021, which accounts for a six-month delay from the bill’s July 1, 2020 effective date. This estimate reflects the cost of hiring one part-time revenue specialist within the Comptroller’s Office to administer and verify the credit and a one-time expenditure increase of \$36,000 to add the credit to the personal and corporate income tax credit form. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	0.5
Salary and Fringe Benefits	\$17,416
Tax Programming Costs	36,000
Operating Expenses	<u>5,049</u>
Total FY 2021 State Expenditures	\$58,465

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

A portion of TTF revenues are 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% decrease beginning in fiscal 2025). Accordingly, TTF expenditures decrease by \$6,500 in fiscal 2021 and by \$5,000 in fiscal 2025 as shown in Exhibit 1. TTF revenues also fund the State capital program; thus, a decrease in TTF revenues decreases expenditures for the State capital program.

Local Revenues: Local governments receive a portion of corporate income tax revenues as local highway user revenues through capital transportation grants. Under this bill, local highway user revenues decrease by approximately \$6,500 in fiscal 2021 and by \$5,000 in fiscal 2025 as a result of credits claimed against the corporate income tax.

Additional Information

Prior Introductions: Similar bills, HB 909 of 2019 and HB 54 of 2016, 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; Maryland State Department of Education; U.S. Census Bureau; Department of Legislative Services

Fiscal Note History: First Reader - February 16, 2020
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