

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1314 (Delegate Chisholm, *et al.*)
 Economic Matters

Corporations and Associations - Annual Reports - Filing Fees (Right to Start Act)

This bill requires the State Department of Assessments and Taxation (SDAT) to waive annual corporate filing fees for the first year that business entities are in existence. The bill also requires the following distributions from corporate filing fee revenue: (1) 25% to the Child Care Scholarship Program Presumptive Eligibility (CCSPPE) Fund and (2) for fiscal 2025 only, 25% to the Maryland State Department of Education (MSDE) to provide grants under the Growing Family Child Care Opportunities Pilot Program. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: General fund revenues decrease by \$73.4 million in FY 2025 and by \$49.9 million in FY 2029. Total special fund revenues increase by \$51.8 million in FY 2025 and by \$28.3 million in FY 2029. Special fund expenditures are assumed to correspondingly increase by \$25.9 million in FY 2025 only, as discussed below. **This bill establishes a mandated distribution beginning in FY 2025.**

| (\$ in millions) | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|------------------|----------|----------|----------|----------|----------|
| GF Revenue | (\$73.4) | (\$48.1) | (\$48.6) | (\$49.3) | (\$49.9) |
| SF Revenue | \$51.8 | \$26.5 | \$27.0 | \$27.7 | \$28.3 |
| SF Expenditure | \$25.9 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$47.5) | (\$21.6) | (\$21.6) | (\$21.6) | (\$21.6) |

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

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses no longer have to pay the annual filing fee for the first year that the business is in existence.

Analysis

Current Law:

Annual Report and Filing Fees

Business entities in the State are required to file an annual report along with a reporting fee with SDAT by April 15, regardless of whether the business owns property, generates income, or has conducted business activity in the State during the preceding year. Failure to file the annual report may result in the business entity losing the right to conduct business in Maryland. **Exhibit 1** identifies the amount of the report fee that each legal entity is required to pay.

Exhibit 1 Annual Reporting Fee Requirement

| <u>Business Entity</u> | <u>Fee</u> | <u>Business Entity</u> | <u>Fee</u> |
|-------------------------------|------------|------------------------------|------------|
| Stock Corp | \$300 | Domestic Statutory Trust | \$300 |
| Nonstock Corp | 0 | Foreign Statutory Trust | 300 |
| Foreign Insurance Corp | 300 | Real Estate Investment Trust | 300 |
| Foreign Interstate Corp | 0 | Certified Family Farm | 100 |
| Limited Liability Company | 300 | Sole Proprietorship | 0 |
| Limited Liability Partnership | 300 | General Partnership | 0 |
| Limited Partnership | 300 | Amended Return | 0 |

Source: Department of Legislative Services

Growing Family Child Care Opportunities Pilot Program

The Growing Family Child Care Opportunities Pilot Program was established under Chapters 437 and 438 of 2021 to provide grants to establish and support local pilot programs in the State. Under the requirements of the Acts, the Governor was required to include \$450,000 in the State budget for the program in fiscal 2023 and 2024. The provisions of Chapters 437 and 438 are set to terminate June 30, 2025. The fiscal 2025 State budget as introduced does not include funding for the program.

The Child Care Scholarship Program Presumptive Eligibility Fund

The Child Care Scholarship (CCS) Program, as administered by MSDE, provides financial assistance for child care costs to families who meet income eligibility requirements. Under provisions of Chapters 525 and 526 of 2022, MSDE was required to establish a process for granting presumptive eligibility for a subsidy under the CCS Program. Generally, an individual must attest that the individual meets the eligibility requirements for a subsidy by completing and electronically submitting a form provided by MSDE, including a statement of the individual's estimated annual household income. The individual is then eligible to receive a subsidy beginning on the day on which the form is submitted and for a minimum of 60 days, regardless of program eligibility status.

The CCSPPE Fund is a special, nonlapsing fund, administered by MSDE. The fund may be used only to award a subsidy under the CCS Program in an amount sufficient to provide child care for an individual granted presumptive eligibility until (1) the individual either fails to complete the full application within 15 days or is found *ineligible* and the timeframe for provision of funds to the individual lapses or (2) the individual is found eligible to participate in the program. If an individual is found eligible to participate in the program, federal and matching State funds available under the federal Child Care Development Fund must be used to reimburse the CCSPPE Fund for its subsidy awards. Under the provisions of the Acts, beginning in fiscal 2024, the Governor must appropriate in the annual budget bill an amount to the CCSPPE Fund at least equal to the amount recommended by MSDE, as determined in a required study. However, in practice, MSDE reports that the fund has never received a direct appropriation and that costs for presumptive eligibility have been covered by the overall appropriation to the CCS Program. The fiscal 2025 budget as introduced includes \$412.4 million in funding for the CCS Program (\$83.8 million federal funds/\$328.5 million general funds).

State Fiscal Effect: General fund revenues decrease by \$73.4 million in fiscal 2025 and by \$49.9 million in fiscal 2029, and total special fund revenues increase by \$51.8 million in fiscal 2025 and by \$28.3 million in fiscal 2029, as shown in **Exhibit 2**. This estimate is based on the current general fund revenue forecast for corporate filing fees and assumes that there are approximately 72,000 new business filings each year, which would be exempt from the filing fee requirement under the bill.

Exhibit 2
Annual Report Filing Fee Revenue Distribution
(\$ in Millions)

| <u>Fiscal Year</u> | <u>General Fund Forecast</u> | <u>Year 1 Waiver</u> | <u>Child Care Scholarship Program Fund</u> | <u>Child Care Opportunities Pilot Program</u> | <u>General Fund Revenue Decrease</u> |
|---------------------------|-------------------------------------|-----------------------------|---|--|---|
| 2025 | \$125.2 | (\$21.6) | \$25.9 | \$25.9 | (\$73.4) |
| 2026 | 127.5 | (21.6) | 26.5 | 0.0 | (48.1) |
| 2027 | 129.8 | (21.6) | 27.0 | 0.0 | (48.6) |
| 2028 | 132.3 | (21.6) | 27.7 | 0.0 | (49.3) |
| 2029 | 134.7 | (21.6) | 28.3 | 0.0 | (49.9) |

Source: Board of Revenue Estimates; State Department of Assessments and Taxation; Department of Legislative Services

This estimate also accounts for Chapters 323 and 324 of 2016 that established the Maryland Small Business Retirement Savings Program and Trust that requires specified private-sector employers to make the program available to their employees. The legislation waives the annual filing fee collected by SDAT for a corporation or business entity that participates in the program or otherwise offers a retirement savings arrangement for its employees. The Budget Reconciliation and Financing Act of 2019 delayed the implementation of the program until fiscal 2022. The program, MarylandSaves, began operating in September 2022.

To the extent that variations occur in the number of business entities paying the filing fee and who also file electronically each year, the effect on general fund revenues (and special fund revenues) will vary accordingly.

While *overall* State revenues decrease due to the waiver under the bill, a portion of general fund revenues are redirected for specified purposes related to child care. In fiscal 2025 only, \$25.9 million in filing fee revenues is distributed to MSDE to provide grants under the Growing Family Child Care Opportunities Pilot Program. Although the program has been funded with general funds (and there is no special fund otherwise created for the program), this estimate assumes that filing fee revenues distributed to MSDE under the bill are treated as special funds. Because the bill also explicitly states that MSDE is to use the funds to provide grants under the pilot program, the estimate assumes that special fund expenditures correspond, reflecting the awarding of grants under the program. As the pilot

program is set to expire at the end of fiscal 2025, full expenditure of the funds is assumed during fiscal 2025.

Also beginning in fiscal 2025, the CCSPPE Fund receives at least \$25.9 million annually. While the bill does not explicitly require additional spending from this fund, significant additional funding is available for the fund as a result of the bill. As noted above, general CCS Program funding has traditionally been used to satisfy presumptive eligibility requirements. The dedicated funding source for the CCSPPE Fund established by the bill mitigates the need – at least partially – for general funds for this purpose. The resulting impact may be an overall reduction in general fund expenditures or simply a redirection of general fund expenditures for other CCS Program purposes. Thus, any such impact has not been accounted for in this analysis.

Additional Information

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

Designated Cross File: None.

Information Source(s): Maryland State Department of Education; State Department of Assessments and Taxation; Department of Legislative Services

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