

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 89 (The President, *et al.*) (By Request - Administration)
 Budget and Taxation

Small Business Relief Tax Credit - Expansion

This Administration bill expands the small business relief tax credit by allowing a credit to small businesses for providing qualified paid parental leave benefits to qualified employees. Additionally, the bill increases the maximum amount of tax credit certificates that the Department of Commerce (Commerce) may issue annually from \$5 million to \$10 million. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General and special fund revenues decrease by \$5 million annually beginning in FY 2020. Special fund expenditures decrease by \$32,800 annually beginning in FY 2020.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$4,657,100)	(\$4,657,100)	(\$4,657,100)	(\$4,657,100)	(\$4,657,100)
SF Revenue	(\$342,900)	(\$342,900)	(\$342,900)	(\$342,900)	(\$342,900)
SF Expenditure	(\$32,800)	(\$32,800)	(\$32,800)	(\$32,800)	(\$32,800)
Net Effect	(\$4,967,200)	(\$4,967,200)	(\$4,967,200)	(\$4,967,200)	(\$4,967,200)

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

Local Effect: Local highway user revenues decrease by \$32,800 annually beginning in FY 2020. Expenditures are not affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment as discussed below.

Analysis

Bill Summary: A qualified employer parental leave benefit is paid parental leave that is paid at the same wage rate that the qualified employee normally earns and meets or exceeds the requirements for paid parental leave provided to State employees in the Executive Branch. The credit is the lesser of \$500 for each qualified employee or the total amount of qualified employer parental leave benefits accrued by qualified employees.

For an employer that provides both a qualified employer parental leave benefit and a qualified employer sick and safe leave benefit, the credit is the lesser of \$1,000 for each qualified employee or the total amount of both of those benefits accrued by qualified employees.

Current Law: 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 credit certificates not exceeding \$5 million annually and must issue tax credit certificates to qualified applicants on a first-come, first-served basis.

Parental Leave for State Employees in the Executive Branch

Chapter 752 of 2018 provides up to 60 days of paid parental leave to an employee in the Executive Branch of State government who is the primary caregiver responsible for the care and nurturing of a child to care for the child immediately following either the child's birth or the adoption of a child who is younger than age six. An employee entitled to parental leave may use available accrued annual leave and personal leave. If that leave is less than 60 days, the State agency that employs the employee must provide the employee with additional paid leave to attain 60 days of parental leave.

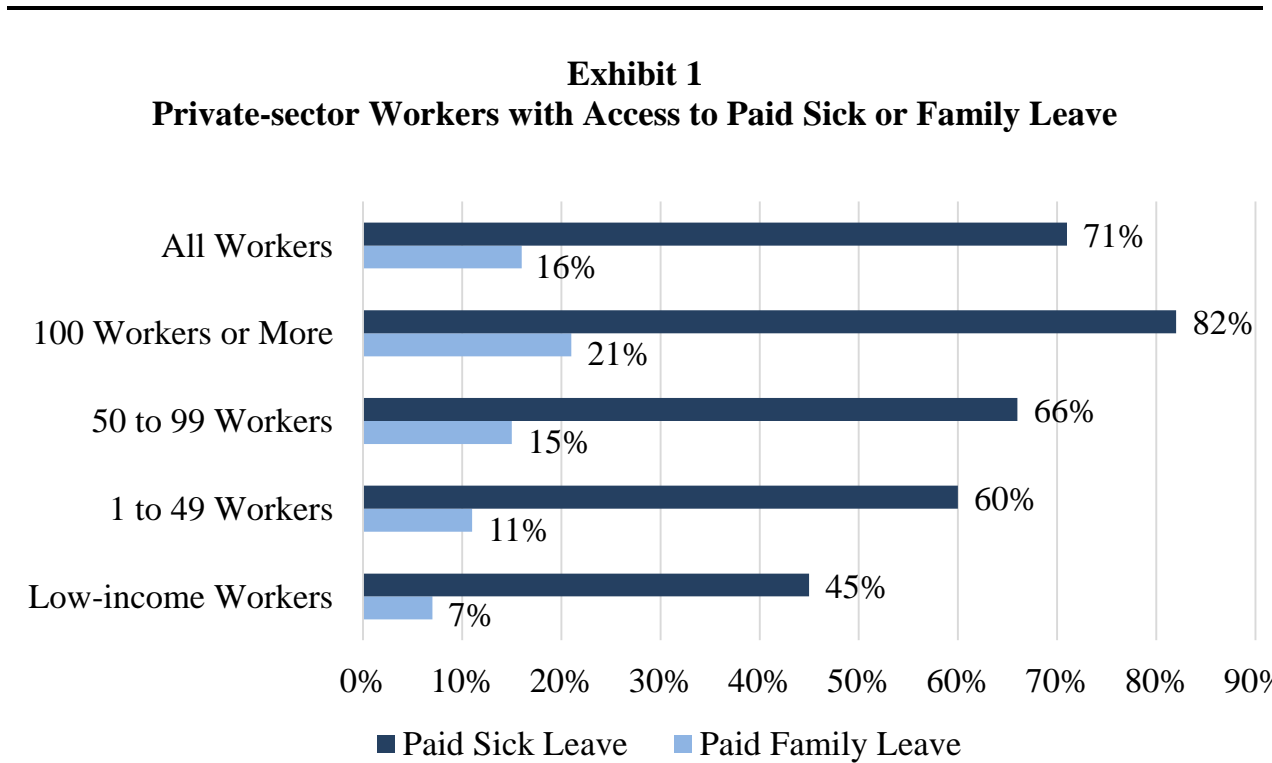
Federal Paid Family and Medical Leave Tax Credit

The federal Tax Cuts and Jobs Act of 2017 created a tax credit for employers who voluntarily offer paid family and medical leave to employees. Eligible employers are entitled to claim a credit for paid family and medical leave equal to 12.5% of wages paid to qualifying employees during any period in which such employees are on leave under the Family and Medical Leave Act provided that the rate of payment is 50% of the wages normally paid to the employee. Only paid family and medical leave provided to employees whose prior-year compensation was at or below a certain amount qualify for the credit.

Generally, for tax year 2018, the employee’s 2017 compensation from the employer must have been \$72,000 or less. The credit is only available for wages paid in tax years 2018 and 2019.

Background: In 2019, 250% of the annual federal poverty guidelines for a single-person household is \$31,225.

According to the U.S. Bureau of Labor Statistics, as shown in **Exhibit 1**, nationally, in 2018, 71% of workers in private-industry businesses had access to paid sick leave and 16% of workers in private-industry businesses had access to paid family leave. Family leave is granted to an employee to care for a family member and includes paid maternity and paternity leave. Low-wage workers or those who worked in small businesses were less likely to receive paid sick or family leave.



Note: Low-income workers are workers with hourly wages of \$12.75 or less.

Source: U.S. Bureau of Labor Statistics; Department of Legislative Services

State Revenues: Commerce may approve an additional \$5.0 million of small business relief tax credits annually beginning in tax year 2019. Based on data from the U.S. Bureau of Labor Statistics and the U.S. Census Bureau, DLS estimates there are 76,000 full-time

employees who earn \$31,225 or less and work for a business with fewer than 15 employees, of which approximately 46,000 employees likely already earn paid sick leave and 8,000 employees likely already earn paid parental leave. Assuming at least 20,000 of these employees receive qualified paid sick and safe leave or qualified paid parental leave that equal at least \$500 per employee, Commerce will award the maximum amount of credits each year. As a result, general fund revenues decrease by \$4.7 million in fiscal 2020. Transportation Trust Fund (TTF) revenues decrease by \$242,993 in fiscal 2020, and Higher Education Investment Fund revenues decrease by \$99,900. **Exhibit 2** shows the estimated State and local revenue impacts resulting from the tax credits.

Exhibit 2
State Fiscal Impact
Fiscal 2020-2024

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
General Fund	(\$4,657,107)	(\$4,657,107)	(\$4,657,107)	(\$4,657,107)	(\$4,657,107)
HEIF	(99,900)	(99,900)	(99,900)	(99,900)	(99,900)
TTF	(242,993)	(242,993)	(242,993)	(242,993)	(242,993)
Total Revenues	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)
TTF Expenditures	(\$32,804)	(\$32,804)	(\$32,804)	(\$32,804)	(\$32,804)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

This estimate assumes that two-thirds of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

State Expenditures: Commerce reports that it can continue to administer the small business relief tax credit program with existing resources. The Comptroller’s Office can update tax form instructions with existing resources.

A portion of TTF revenues are used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate income tax revenues results in a 13.5% decrease in TTF expenditures to local governments. Accordingly, TTF expenditures decrease by approximately \$32,804 annually beginning in fiscal 2020 as shown in Exhibit 2.

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 approximately \$32,804 annually beginning in fiscal 2020 as a result of credits claimed against the corporate income tax.

Small Business Effect: Small businesses with 14 or fewer employees that provide paid parental leave or paid sick and safe leave to employees who earn \$31,225 or less a year may benefit from claiming the tax credit. There are approximately 88,000 businesses with 14 or fewer employees, but it is unknown how many of these businesses offer paid parental leave or paid sick and safe leave to employees who earn \$31,225 or less. Small businesses that provide either of the qualified benefits to qualified employees may receive up to \$500 in tax credits per eligible employee, and those who provide both benefits may receive up to \$1,000 in tax credits per eligible employee.

Additional Information

Prior Introductions: None.

Cross File: HB 46 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

Information Source(s): Department of Commerce; Comptroller's Office; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Health and Human Services; Department of Legislative Services

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Analysis by: Heather N. Ruby

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Small Business Relief Tax Credit - Expansion

BILL NUMBER: SB 89

PREPARED BY: Chris Carroll

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON
MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS