

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 2
Ways and Means

(Delegate Luedtke)

Income Tax – Work Opportunity Tax Credit

This bill creates a nonrefundable credit against the State income tax for up to 100% of the federal Work Opportunity Tax Credit claimed by an employer. Any unused amount of the credit may not be carried forward to any other tax year. The Department of Legislative Services (DLS) must evaluate the tax credit program and report its findings to the General Assembly by December 31, 2028. **The bill takes effect July 1, 2022, and applies to tax years 2022 through 2028.**

Fiscal Summary

State Effect: General fund revenues decrease by \$73.0 million in FY 2023 due to credits claimed against the income tax. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues decrease beginning in FY 2023 to the extent credits are claimed against the corporate income tax. Future year estimates reflect the forecasted growth in the federal tax credit, adjusted for Maryland. General fund expenditures increase by \$40,000 in FY 2023 due to one-time implementation costs at the Comptroller's Office.

| (\$ in millions) | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|------------------|----------|----------|----------|----------|----------|
| GF Revenue | (\$73.0) | (\$75.9) | (\$78.2) | (\$80.5) | (\$82.2) |
| GF Expenditure | \$0.0 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$73.0) | (\$75.9) | (\$78.2) | (\$80.5) | (\$82.2) |

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

Local Effect: Local highway user revenues decrease to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The Work Opportunity Tax Credit is a federal income tax credit available to employers for hiring individuals who are considered to face significant barriers to employment. Employers may claim the credit for employees who begin work before January 1, 2026. In the first year of employment, employers can claim a credit equal to 40% of the first \$6,000 of wages paid to an employee who is certified by a state workforce agency as being a member of a targeted group.

The targeted groups for the credit include (1) an individual who receives or whose family receives Temporary Assistance for Needy Families; (2) veterans; (3) residents of an empowerment zone or rural renewal county; (4) the formerly incarcerated or those convicted of a felony; (5) individuals experiencing long-term unemployment; (6) supplemental Social Security income recipients; (7) individuals whose families are recipients of Supplemental Nutrition Assistance Program benefits; and (8) an individual who is a vocational rehabilitation referral certified to have a physical or mental disability.

It is estimated that the tax credit will decrease federal revenues by about \$3.2 billion annually in the next several federal fiscal years. The Maryland Department of Labor advises that in calendar 2021 a total of 56,700 Maryland companies participated in the tax credit program.

Several existing State and federal programs also provide tax credits to promote employment generally, within certain geographic areas of the State, and for targeted populations. State tax credits include the enterprise zone employment income tax credit and the enhanced job creation income tax credit for hiring a qualified veteran.

State Revenues: Tax credits may be claimed beginning in tax year 2022. As a result, State revenues will decrease by \$73.0 million in fiscal 2023 and by \$82.2 million in fiscal 2027. TTF and HEIF revenues will decrease to the extent credits are claimed against the corporate income tax. This estimate is based on the projected cost of the federal tax credit, adjusted for Maryland and the provisions of the bill.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$40,000 in fiscal 2023 to add the tax credit to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

DLS can conduct the required tax credit evaluation using existing budgeted resources.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland Department of Labor; U.S. Joint Committee on Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 23, 2022
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