

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.

HOUSE BILL 2

Q3

(PRE-FILED)

2lr0583
CF 2lr0445

By: **Delegate Luedtke**

Requested: September 28, 2021

Introduced and read first time: January 12, 2022

Assigned to: Ways and Means

A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax – Work Opportunity Tax Credit**

3 FOR the purpose of allowing employers that claim the federal work opportunity credit to
4 claim a credit against the State income tax for certain wages paid to individuals with
5 barriers to employment; and generally relating to a State work opportunity tax
6 credit.

7 BY adding to
8 Article – Tax – General
9 Section 10–754
10 Annotated Code of Maryland
11 (2016 Replacement Volume and 2021 Supplement)

12 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
13 That the Laws of Maryland read as follows:

14 **Article – Tax – General**

15 **10–754.**

16 (A) IN THIS SECTION, “FEDERAL WORK OPPORTUNITY CREDIT” MEANS THE
17 WORK OPPORTUNITY TAX CREDIT ALLOWED UNDER § 51 OF THE INTERNAL
18 REVENUE CODE FOR WAGES PAID OR INCURRED BY AN EMPLOYER TO AN
19 INDIVIDUAL WITH BARRIERS TO EMPLOYMENT.

20 (B) AN EMPLOYER MAY CLAIM A CREDIT AGAINST THE STATE INCOME TAX
21 IN AN AMOUNT EQUAL TO THE LESSER OF:

22 (1) 100% OF THE FEDERAL WORK OPPORTUNITY CREDIT PROPERLY

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 CLAIMED FOR THE TAXABLE YEAR BY AN EMPLOYER ON THE EMPLOYER'S FEDERAL
2 INCOME TAX RETURN; OR

3 (2) THE STATE INCOME TAX IMPOSED FOR THAT TAXABLE YEAR.

4 (C) THE UNUSED AMOUNT OF THE CREDIT UNDER THIS SECTION MAY NOT
5 BE CARRIED OVER TO ANY OTHER TAXABLE YEAR.

6 (D) ON OR BEFORE DECEMBER 31, 2028, THE DEPARTMENT OF
7 LEGISLATIVE SERVICES SHALL PREPARE A TAX CREDIT EVALUATION IN
8 ACCORDANCE WITH TITLE 1, SUBTITLE 3 OF THIS ARTICLE ON THE TAX CREDIT
9 AUTHORIZED UNDER THIS SECTION AND REPORT TO THE GENERAL ASSEMBLY, IN
10 ACCORDANCE WITH § 2-1257 OF THE STATE GOVERNMENT ARTICLE, ON THE TAX
11 CREDIT EVALUATION.

12 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July
13 1, 2022, and shall be applicable to all taxable years beginning after December 31, 2021, but
14 before January 1, 2029. It shall remain effective for a period of 7 years and, at the end of
15 June 30, 2029, this Act, with no further action required by the General Assembly, shall be
16 abrogated and of no further force and effect.

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
fnu2/jrb

Analysis by: Robert J. Rehrmann

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