

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 454 (Senator McFadden, *et al.*)
 Budget and Taxation

Ways and Means

Pilot Program for Long-Term Employment of Qualified Ex-Felons

This bill creates a three-year Pilot Program for the Long-Term Employment of Qualified Ex-Felons to be administered by the Department of Labor, Licensing, and Regulation (DLLR).

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001 and ending before January 1, 2006, with respect to individuals hired on or after July 1, 2002 and before December 31, 2004. The bill sunsets December 31, 2004.

Fiscal Summary

State Effect: Total general fund and Transportation Trust Fund (TTF) revenues could decrease by a maximum of \$251,100 in FY 2004, \$418,500 in FY 2005 and FY 2006, and \$167,400 in FY 2007, which reflects full participation in the pilot program and \$6,000 annual wages for each participant. General fund expenditure increase of approximately \$12,600 annually in FY 2003 - FY 2005 for the purchase of fidelity bonds.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue	\$0	(\$251,100)	(\$418,500)	(\$418,500)	(\$167,400)
GF Expenditure	12,600	12,600	12,600	0	0
Net Effect	(\$12,600)	(\$263,700)	(\$431,100)	(\$418,500)	(\$167,400)

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

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. Seventy-five percent of corporate tax revenues are distributed to the general fund and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% are distributed to local jurisdictions.

Small Business Effect: Potential meaningful. Small businesses that hire ex-felons as employees could realize reduced income tax liabilities.

Analysis

Bill Summary: The bill requires DLLR to establish and administer the pilot program in consultation with the Governor's Workforce Investment Board. The pilot program is intended to provide incentives for the hiring of up to 150 qualified ex-felons each year through existing one-stop employment and training centers in at least two of the State's Workforce Investment Areas. The one-stop centers will work with community organizations and any State or local government entities that provide services to ex-felons and will also provide outreach and education to employers about the program.

A business entity that hires a qualified ex-felon through the pilot program will be able to obtain a one-year \$5,000 federal fidelity bond for the qualified ex-felon for the first year of employment. The department is required to purchase federal fidelity bonds and to provide the bonds to the designated one-stop centers for up to 150 qualified ex-offender participants each year.

A business entity may claim a tax credit for wages paid to a qualified ex-felon employee. For each taxable year, a credit is allowed in an amount equal to: (1) 30% of up to the first \$6,000 of the wages paid to the qualified ex-felon employee during the first year of employment; and (2) 20% of up to the first \$6,000 of the wages paid to the qualified ex-felon employee during the second year of employment. A tax-exempt organization may apply the credit against income tax due on unrelated business taxable income or for the payment to the Comptroller of taxes that the organization is required to withhold from the wages of employees and is required to pay to the Comptroller.

A business entity may not claim the credit under this section until it has notified DLLR that a qualified ex-felon employee has been hired. A business entity may not claim the credit if the business entity is simultaneously receiving federal or State employment training benefits for the same employee.

If a business entity is entitled to a tax credit for an employee who is employed for less than one year because the employee voluntarily terminates employment with the employer to take another job, the business entity may claim a tax credit of 30% of up to the first \$6,000 of the wages paid to the employee during the course of employment. If a business entity is entitled to a tax credit for an employee who is employed for less than

one year due to a reason other than voluntary termination, the amount of the credit shall be reduced by the proportion of a year that the employee did not work.

Any excess credit may be carried forward for up to five taxable years. Any person claiming the credit is required to make an addition modification in the amount of the credit claimed. DLLR, in consultation with the Governor's Workforce Investment Board and the Comptroller, are required to adopt regulations to carry out the provisions of the bill.

Current Law: No tax credit of this type exists.

Background: The federal Work Opportunity Tax Credit program provides tax credits to employers for employing individuals in eight target groups including qualified ex-felons, TANF recipients, individuals employed in empowerment zones, and disabled individuals. The federal tax credits can reduce employers' federal income tax liability by as much as \$2,100 per worker.

Under federal law, the term "qualified ex-felon" means any individual who is certified by the designated local agency: (1) as having been convicted of a felony; (2) having a hiring date which is not more than one year after the date of conviction or release from prison; and (3) as being a member of a family with an income during the prior six months that is 70% or less of the Bureau of Labor Statistics lower living standard.

There are 12 Workforce Investment Areas (WIAs) in Maryland and in each area there is at least one one-stop employment and training center. The 12 WIAs are: Anne Arundel County, Baltimore County, Baltimore City, Frederick County, Lower Shore, Mid-Maryland (Carroll and Howard counties), Montgomery County, Prince George's County, Southern Maryland, Susquehanna Region (Cecil and Harford counties), Upper Shore, Western Maryland (Washington, Allegany, and Garrett counties).

State Fiscal Effect: Total general fund and TTF revenues would decrease by up to approximately \$251,100 in fiscal 2004 assuming all 150 qualified ex-felons participate in the first year of the pilot program and that annual wages are at least \$6,000. Fiscal 2005 revenues would decrease by an estimated \$418,500, which represents 150 ex-felon employees in their second year of employment and an additional 150 in their first year of employment. This trend would continue for fiscal 2006. Revenues would decline by a maximum of \$167,400 in fiscal 2007 as credits are claimed for the last employees hired. Revenues decrease by \$1,800 for every credit taken for a hired ex-felon in the first year of the program and by \$3,000 for every ex-felon hired who works both years of the program (\$1,800 in the first year and \$1,200 in the second year).

To the extent that there are fewer than 600 individuals hired each year and if wages paid are less than \$6,000 annually, the State average loss will not be as great.

The bill also provides for an addition modification for the amount of the credit taken. Therefore, each \$1,800 credit taken would be offset by \$126 (\$84 for each \$1,200 credit taken), which results in a State revenue loss of \$1,674 for each first year employee and \$1,116 for each second year employee.

Credits taken on personal income tax returns would reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues is distributed to the general fund and 25% is distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

As a point of reference, the Department of Public Safety and Correctional Services advises that there were 50,000 to 75,000 newly released ex-felons in calendar 1999 and 2000.

DLLR administers a similar federal program. Therefore, it is assumed that this pilot program can be administered with existing budgeted resources.

However, the Department of Legislative Services advises that because this is a temporary pilot program, rather than a permanent program, and annual participation levels are not yet known, the requirements of the bill could be handled with existing resources. However, should existing resources prove inadequate, the department can request additional positions during the annual budget process.

General fund expenditures are estimated to increase by approximately \$12,600 annually in fiscal 2003 through 2005 (assuming 150 new employees hired each year) due to the purchase of 150 fidelity bonds for each qualified ex-felon participating in the program. One fidelity bond for \$5,000 worth of insurance coverage costs \$84.

The Office of the Comptroller advises that it would incur one-time computer programming costs of \$42,400 to add the credit to the tax forms. The Department of Legislative Services advises that since forms and instructions are updated annually, the costs for form changes resulting from this bill could be absorbed within existing resources.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% are distributed to local jurisdictions.

Additional Information

Prior Introductions: This bill is similar to SB 809, as amended, from the 2001 session. It received an unfavorable report from the House Ways and Means Committee.

Cross File: HB 652 (Delegate Marriott, *et al.*) – Ways and Means.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates); Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; The Federal Bonding Program/McLaughlin Company; Department of Legislative Services

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