

**Department of Legislative Services**  
 Maryland General Assembly  
 2009 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 605

(Senator Currie, *et al.*)

Budget and Taxation

Ways and Means

**State Employment Opportunity Credit - Sunset Extension**

This bill extends the termination date of the State Employment Opportunity Credit (Work, Not Welfare Tax Credit) to June 30, 2010.

The bill takes effect June 1, 2009.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$135,000 in FY 2010 due to extension of the tax credit program. Transportation Trust Fund (TTF) revenues decrease by \$30,200 in FY 2010. Future year revenues reflect estimated number of eligible taxpayers claiming the credit, extension of the credit, and current economic forecast. Expenditures are not affected.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$135,000)	(\$190,400)	(\$49,100)	\$0	\$0
SF Revenue	(\$30,200)	(\$42,500)	(\$11,000)	\$0	\$0
Expenditure	0	0	0	0	0
Net Effect	(\$165,200)	(\$232,900)	(\$60,100)	\$0	\$0

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

**Local Effect:** Local highway user revenues decrease by \$9,100 in FY 2010, \$12,800 in FY 2011, and by \$3,300 in FY 2012. Expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** The State Employment Opportunity Tax Credit (Work, Not Welfare Tax Credit) program terminates June 30, 2009. Businesses can also qualify for federal tax credits under the Work Opportunity Tax Credit as discussed below.

**Background:** The State Employment Opportunity Credit (Work, Not Welfare Tax Credit) allows employers who hire an individual who is a recent recipient of temporary cash assistance from the State to claim a tax credit for certain wages paid to the employee and for child care and transportation expenses paid on behalf of the employee in the first two years of employment. Employers can claim a credit equal to 30% of the first \$6,000 of the wages paid to the employee (20% in year two). If the employee was a recipient of temporary cash assistance from the State for at least 18 of the last 48 months, the credit is equal to 40% of the first \$10,000 in wages paid if the employee was employed for at least one full year. Employers can claim a credit of up to \$600 of child care or transportation expenses paid on behalf of qualifying employees in the first year of employment (\$500 in year two). The amount of the credit may not exceed the tax liability in the year, and any unused amount may be carried forward five tax years. The credit can be claimed with regard to individuals hired on or after June 1, 1995 through June 30, 2009. The program terminates June 30, 2009. **Exhibit 1** lists the amount of State employment opportunity tax credits claimed in tax year 1997 through 2006.

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### Exhibit 1 Employment Opportunity Credits Claimed Tax Year 1997-2006

<u>Tax Year</u>	<u>Credits Claimed</u>
1997	\$162,975
1998	158,760
1999	522,249
2000	115,833
2001	338,564
2002	244,620
2003	758,823
2004	1,215,471
2005	368,436
2006	630,815
<b>Total</b>	<b>\$4,516,546</b>

The federal Work Opportunity Tax Credit (WOTC), which was first authorized by the Small Business Job Protection Act of 1996, is designed to provide incentive to employers to hire members of families receiving benefits under Temporary Assistance to Needy Families and other groups thought to experience employment difficulties. These groups include high-risk youths, ex-felons, residents of certain economically depressed areas, certain Supplemental Security Income recipients, and qualified veterans including veterans with a service-connected disability. The Small Business and Work Opportunity Tax Act of 2007 extended WOTC through August 31, 2011. Generally, employers claim the credit for a percentage of the first \$6,000 in wages paid for qualified employees.

The Department of Labor, Licensing, and Regulation (DLLR) is responsible for administering both the federal and State tax credit. In 2006, DLLR certified a total of 3,945 individuals. Most of the individuals who were hired worked in the service industry (40%) followed by clerical and sales (17%). **Exhibit 2** shows the average hourly wages paid to all certified individuals.

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**Exhibit 2**  
**Average Hourly Wages Paid to Certified Hirees in 2006**

<u>Hourly Wages</u>	<u>Individuals</u>	<u>Percent</u>
Up to \$6	1,120	28%
\$6 to \$7	1,522	39%
\$7 to \$8	1,054	27%
\$8 to \$9	151	4%
Over \$9	98	2%
<b>Total</b>	<b>3,945</b>	<b>100%</b>

Source: Department of Labor, Licensing, and Regulation

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**State Revenues:** The bill extends the termination date of the State Employment Opportunity Tax Credit for individuals hired through June 30, 2010, an extension of one year. As a result, general fund revenues will decrease by \$135,000 in fiscal 2010. TTF revenues will decrease by \$30,200 in fiscal 2010. This estimate is based on the history of the existing tax credit program through tax year 2006 and the following facts and assumptions:

- The bill applies to one-half of calendar 2009 and one-half of calendar 2010.
- The add-back provision of the credit reduces revenue losses by about 8% of the total amount claimed in each tax year.
- 90% of credits are claimed against the corporate income tax.
- For credits claimed to date, an estimated 75% of credits are for individuals in the first year of employment and the remaining amount is for individuals in their second year of employment.
- Relative to the amount of credits claimed in recent tax years, the current recession will substantially decrease the amount of credits claimed in 2009 and 2010.

**Local Revenues:** Local highway user revenues distributed from TTF will decrease as a result of credits claimed against the corporate income tax. Local highway user revenues decrease by \$9,100 in fiscal 2010, \$12,800 in fiscal 2011, and by \$3,300 in fiscal 2012.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** U.S. Department of Labor; Department of Labor, Licensing, and Regulation; Comptroller's Office; Department of Legislative Services

**Fiscal Note History:** First Reader - February 23, 2009  
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