SB 830

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Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 830 (Senator Currie)

Budget and Taxation Ways and Means

Tax Credits for Qualifying Employees with Disabilities - Sunset Extension

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This bill extends to June 30, 2012, the termination date of the Qualifying Employees with Disabilities Tax Credit.

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: General fund revenues decrease by $45,000 in FY 2012 due to extension of the tax credit. Transportation Trust Fund (TTF) revenues decrease by $8,200 and Higher Education Investment Fund (HEIF) revenues decrease by $3,000 in FY 2012. Future year revenues reflect the estimated number of eligible taxpayers claiming the credit and termination of the credit. Expenditures are not affected.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	($45,000)	($31,000)	($13,000)	$0	$0
SF Revenue	($11,200)	($7,900)	($3,400)	$0	$0
Expenditure	0	0	0	0	0
Net Effect	($56,200)	($38,900)	($16,400)	$0	$0

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

Local Effect: Local highway user revenues decrease by $800 in FY 2012, $700 in FY 2013, and by $300 in FY 2014. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The Qualifying Employees with Disabilities Tax Credit terminates June 30, 2011. Businesses can also qualify for federal tax credits as discussed below.

Background: The Qualifying Employees with Disabilities Tax Credit allows employers who hire a qualified individual with disabilities 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. A qualified individual with a disability is a person who (1) meets the definition of an individual with a disability as defined by the Americans with Disabilities Act; (2) has a disability that presently constitutes an impediment to obtaining or maintaining employment or to transitioning from school to work; (3) is ready for employment; and (4) has been determined as having met the criteria of a qualified employee with a disability. A qualified individual also includes an individual who (1) has been discharged or released from active duty in the armed forces of the United States for a service-connected disability; and (2) other individuals meeting the four requirements described above, whether or not the individual receives services from the Department of Labor, Licensing, and Regulation (DLLR).

Employers can claim a credit equal to 30% of the first $6,000 of wages paid to the employee (20% in year two). 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, 2011. **Exhibit 1** lists the amount of Qualifying Employees with Disabilities tax credits claimed in tax years 1999 through 2007. Variable labor market conditions and the business cycle are likely contributors to the volatility of the number and amount of employment tax credits claimed in each year.

The program is administered by the Division of Rehabilitation Services within DLLR. DLLR certified as being eligible for the program a total of 386 individuals in 2004, 409 in 2005, 236 in 2006, and 197 in 2007. About four-fifths of individuals were employed in the services industry with the remaining individuals employed in sales. Virtually all jobs had an average hourly wage of between $6.15 and $7.55 per hour.

The federal Work Opportunity Tax Credit, which was first authorized by the Small Business Job Protection Act of 1996, is designed to provide an incentive to employers to hire groups of individuals thought to face significant employment barriers. The program has been modified over time, most recently by the federal American Recovery and Reinvestment Act of 2009, which provides a consolidated credit program for employment of 12 target groups, including veterans with service-connected disabilities and

Supplemental Security Income recipients. The credit may be claimed for qualifying individuals hired before September 1, 2011. The maximum value of the credit ranges from $2,400 for each new adult hire to $9,000 for each new long-term family assistance recipient hired over a two-year period. In federal fiscal 2008, a total of 691,421 individuals were certified under the program nationwide. In addition, the federal Disabled Access Credit and Barrier Removal Access Credit provide tax benefits to eligible businesses that incur expenditures for the purpose of providing access to persons with disabilities.

Exhibit 1
Employees with Disabilities Credits Claimed
Tax Year 1999-2007

Tax Year	Returns	Credits Claimed	Average
1999	30	$59,500	$1,983
2000	47	65,100	1,385
2001	26	23,300	896
2002	23	21,700	943
2003	15	185,700	12,380
2004	19	405,100	21,321
2005	27	374,900	13,885
2006	20	62,700	3,135
2007	7	15,400	2,200

The labor participation rate of individuals with disabilities typically depends on the type and severity of the disability and other factors such as access to transportation. In 2007, about 386,400 Maryland civilians aged 16 to 64 had a disability and were living in the community, about 11% of the total civilian population of this age. The employment rate of this group was 42%, slightly higher than the corresponding national rate (36%) but significantly lower than the rate for the corresponding State population without disabilities (78%). Median earnings for Marylanders with disabilities were about 70% the amount earned by individuals without disabilities, while State poverty rates were significantly higher among individuals with disabilities (20% compared with 6%).

State Revenues: The bill extends the termination date of the Qualifying Employees with Disabilities Tax Credit for individuals hired through June 30, 2012. As a result, general fund revenues will decrease by $45,000 in fiscal 2012. TTF revenues will decrease by $8,200 and HEIF revenues will decrease by $3,000 in fiscal 2012.

This estimate is based on the history of the existing credit and the following facts and assumptions:

- the bill applies to one-half of calendar 2011 and one-half of calendar 2012;
- the add-back provision of the credit reduces revenue losses by about 8% of the total amount claimed in each tax year; and
- about 90% of credits have been claimed against the corporate income tax in tax years 2000 through 2006.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Department of Education; Department of Disabilities; Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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