HB 43

Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 43 (Delegate Glass)
Ways and Means Budget and Taxation

Income Tax Credit for Qualifying Employees - Sunset Repeal

This bill repeals the termination date of the Qualifying Employees with Disabilities Tax Credit.

The bill takes effect June 1, 2013.

Fiscal Summary

State Effect: General fund revenues decrease by $37,100 in FY 2014 due to the continuation of the tax credit. Transportation Trust Fund (TTF) revenues decrease by $6,900 and Higher Education Investment Fund (HEIF) revenues decrease by $2,500 in FY 2014. Future year revenues reflect annualization and the current economic forecast. State expenditures may increase minimally beginning in FY 2014 to the extent specified agencies incur expenditures to market or promote the tax credit program.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	($37,100)	($87,800)	($101,100)	($116,000)	($127,400)
SF Revenue	($9,400)	($22,400)	($25,700)	($26,400)	($28,900)
Expenditure	0	0	0	0	0
Net Effect	($46,500)	($110,200)	($126,800)	($142,400)	($156,300)

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

Local Effect: Local highway user revenues decrease by $700 in FY 2014 and by $2,000 in FY 2018. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The Qualifying Employees with Disabilities Tax Credit terminates June 30, 2013. Businesses can also qualify for federal tax credits as discussed below.

Background: The Qualifying Employees with Disabilities Tax Credit allows an employer who hires 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 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 for the taxable year, and any unused amount may be carried forward five tax years. **Exhibit 1** lists the amount of Qualifying Employees with Disabilities tax credits claimed in tax years 1999 through 2010. Variable labor market conditions and the business cycle are likely contributors to the number and amount of tax credits claimed in each year.

The program is administered by the Division of Rehabilitation Services within DLLR. The number of individuals certified by DLLR as being eligible for the program decreased from an annual average of 400 in 2004 and 2005 to about 200 in 2006 through 2008. After further decreasing to 9 individuals in 2009 and 15 individuals in 2010, DLLR certified 72 individuals in 2011.

The federal Work Opportunity Tax Credit (WOTC), 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 that have traditionally had a high unemployment rate. The program has been modified over time, including by the federal American Recovery and Reinvestment Act of 2009, which provided a consolidated credit program for employment of 12 target groups, including veterans with service-connected disabilities and Supplemental Security Income recipients. The VOW to Hire Heroes Act of 2011 extended and modified the federal WOTC for veterans. The one-time credit ranges in value from $2,400 to $9,600, depending on whether the veteran was unemployed, is entitled to service-connected disability, compensation, and receipt of SNAP benefits. The American Taxpayer Relief Act of 2012 extended both credits through 2013.

Exhibit 1
Employees with Disabilities Credits Claimed
Tax Year 1999-2010

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	60,621	3,031
2007	7	15,446	2,207
2008	13	13,472	1,036
2009	8	18,542	2,318
2010	8	26,845	3,356

State Fiscal Effect: The bill repeals the termination date of the Qualifying Employees with Disabilities Tax Credit. As a result, general fund revenues will decrease by $37,100 in fiscal 2014. TTF revenues will decrease by $6,900 and HEIF revenues will decrease by $2,500 in fiscal 2014. **Exhibit 2** shows the estimated impact on State and local revenues.

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

- the bill applies to one-half of calendar 2013;
- the add-back provision of the credit reduces revenue losses by about 8% of the total amount claimed in each tax year;
- about 90% of credits have been claimed against the corporate income tax in tax year 2000 through 2006; and

- the amount claimed in each year is adjusted based on the forecasted amount of total job creation in Maryland and the expected State unemployment rate.

Exhibit 2
State and Local Revenue Impacts
Fiscal 2014-2018

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Revenues	**($46,500)**	**($110,200)**	**($126,800)**	**($142,400)**	**($156,300)**
General Fund	($37,100)	($87,800)	($101,100)	($116,000)	($127,400)
HEIF	(2,500)	(6,000)	(6,800)	(7,700)	(8,400)
TTF	(6,900)	(16,400)	(18,900)	(18,700)	(20,500)
MDOT	*(6,200)*	*(14,800)*	*(17,100)*	*(16,900)*	*(18,500)*
LHUR	*(700)*	*(1,600)*	*(1,800)*	*(1,800)*	*(2,200)*

LHUR = Local Highway User Revenues
MDOT = Maryland Department of Transportation

Note: Totals may not sum due to rounding.

To the extent that the recent decrease in the amount of credits claimed for hiring individuals with disabilities represents a permanent decrease in the utilization of the credit by businesses rather than a temporary decrease caused by the economy, revenue losses will be less than estimated in future years.

The bill also states that it is the intent of the General Assembly that DLLR, the Department of Disabilities, and the Department of Veterans Affairs make every effort to promote and market the tax credit program to Maryland employers. To the extent the agencies incur additional expenses in order to market the credit that cannot be absorbable within existing budgeted resources, State expenditures may increase minimally beginning in fiscal 2014.

Local Revenues: Local highway user revenues will decrease as a result of credits claimed against the corporate income tax. Local highway user revenues will decrease by $700 in fiscal 2014 and by $2,000 in fiscal 2018, as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Cross File: SB 124 (Senator Peters, *et al.)* – Budget and Taxation.

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

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