

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 689
Ways and Means

(Delegate Valentino-Smith, *et al.*)

Income Tax Credit - Unemployed Veterans - Start-Up Business

This bill creates a one-time income tax credit for the specified expenses incurred by a qualified veteran to start a business. Subject to specified criteria, the value of the credit may not exceed \$2,000 or the State income tax liability imposed in the taxable year.

The Comptroller is required to adopt regulations to implement the credit and report to the tax committees of the General Assembly by January 1 of each year on the number of qualified veterans claiming the credit.

The bill takes effect July 1, 2013, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues will decrease beginning in FY 2015 due to credits claimed by eligible veterans. General fund expenditures increase by \$103,400 in FY 2015 due to one-time implementation costs at the Comptroller's Office.

Local Effect: Local highway user revenues distributed from the Transportation Trust Fund will decrease beginning in FY 2015 as a result of credits claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Meaningful. Qualified veterans who opt to start a small business will benefit from the tax credit.

Analysis

Bill Summary: The bill creates a one-time income tax credit for the qualified expenses incurred by a qualified veteran to start a business. The value of the credit may not exceed \$2,000 or the State income tax liability imposed in the taxable year.

Qualified expenses include the costs associated with (1) development of a business plan; (2) professional services related to the formation of the business; (3) market surveys and related analyses; (4) advertising the opening of the business; (5) the salaries and wages of employees receiving training; and (6) specified travel.

A qualified veteran is an individual who (1) was a resident of the State at the time of entry into military service or was a member of the Maryland National Guard or other reserve unit located in the State that was mobilized to active duty service; and (2) is collecting or eligible to collect unemployment benefits.

In order to qualify, the business must (1) be founded within two years after the veteran receives an honorable or general discharge from active U.S. military service; (2) be at least 50% owned by the veteran; (3) be located in the State; (4) employ at least five individuals; and (5) have a net profit of at least \$3,000 for the tax year in which the credit is claimed.

Current Law: No similar State income tax credit exists.

Background:

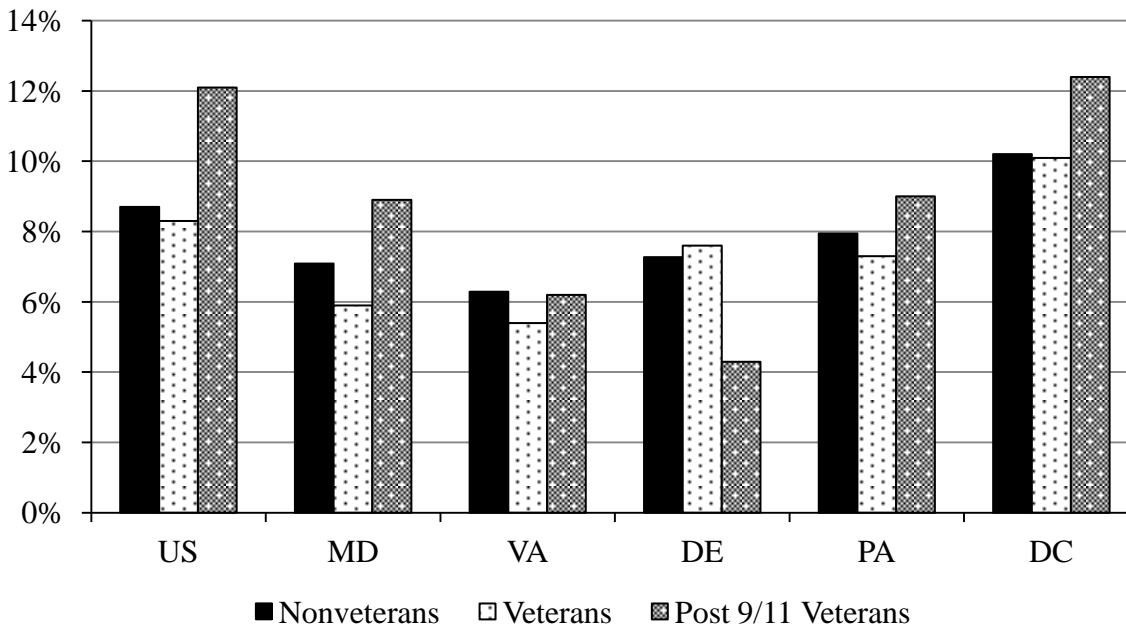
Veteran Employment and Tax Credits

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 certain benefits. The American Taxpayer Relief Act of 2012 extended both credits through 2013.

According to the U.S. Bureau of Labor Statistics, the national unemployment rate for veterans in 2012 was 7%, lower than the 7.9% rate for nonveterans. The unemployment rate for veterans who served on active duty in the U.S. Armed Forces at any time since September 2001 – a group referred to as Gulf War-era II veterans – was 9.9% in 2012. This group also reported a higher rate of service-connected disabilities (26% in 2011 compared with 14% for all veterans). However, among all veterans, the unemployment rate for veterans with a service-connected disability was similar to the rate for veterans with no disability. Gulf War-era II veterans are younger and have less education than other veterans. The unemployment rate among young male Gulf War-era II veterans was 29.1% in 2011, compared with an unemployment rate of 17.6% for nonveterans of the same age.

In Maryland there were 238,000 veterans in the labor force in 2011, about 8% of the total labor force. Approximately 14,000 of these veterans were unemployed, for an unemployment rate of 5.9% compared with a 7.1% unemployment rate for nonveterans. The unemployment rate for Gulf War-era II veterans, however, was 8.9%. **Exhibit 1** shows the unemployment rate by veteran status in 2011 for Maryland, the United States, and surrounding states.

Exhibit 1
State Unemployment Rates by Veteran Status
Calendar 2011



Sources: U.S. Bureau of Labor Statistics; U.S. Congress Joint Economic Committee

The Military Personnel and Service-Disabled Veteran Loan Program requires the Department of Business and Economic Development, in consultation with the Maryland Department of Veterans Affairs, to establish a program to provide no-interest loans to service-disabled veterans and specified businesses owned by or employing military reservists or National Guard personnel called to active duty. The Governor's proposed fiscal 2014 budget includes \$300,000 in funding for the program.

State Revenues: Tax credits may be claimed beginning in tax year 2014. As a result, general fund revenues will decrease beginning in fiscal 2015. However, the amount of the revenue loss cannot be reliably estimated and depends on the percentage of veterans in the State who qualify under the bill, and would opt to start a business and meet the requirements of the bill. General fund revenues decrease in fiscal 2015 by \$2,000 for each qualifying veteran. In 2011 there were 14,000 unemployed veterans in the Maryland workforce. **Exhibit 2** lists the total estimated revenue losses depending on the number of veterans who qualify for the tax credit.

Exhibit 2
State Revenue Loss

<u>Number of Qualifying Veterans</u>	<u>Revenue Loss</u>
1%	\$280,000
2.5%	700,000
5%	1,400,000
10%	2,800,000

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$103,400 in fiscal 2015 to add the credit to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Census Bureau, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 11, 2013
ncs/jrb

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