SB 509

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 509 (Senators Currie and Peters)
Budget and Taxation

Income Tax Credit - Returning Heroes and Wounded Warriors

This bill creates a nonrefundable tax credit against the State income tax for wages paid to a qualified veteran or qualified disabled veteran. A qualified veteran is an individual who served on active duty in the U.S. Armed Forces for at least 180 days, and a qualified disabled veteran is an individual who was discharged or released from active duty in the U.S. Armed Forces for a service-connected disability. Any unused amount of credit can be carried forward for five tax years.

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

Fiscal Summary

State Effect: Potential significant decrease in general fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues beginning in FY 2015 due to credits claimed by eligible businesses for wages paid to qualified veterans or qualified disabled veterans. General fund expenditures increase by $31,000 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 decrease beginning in FY 2015 as a result of credits claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal. Businesses that opt to hire qualified veterans or qualified disabled veterans will likely benefit through lower taxes.

Analysis

Bill Summary: A business entity may claim an income tax credit of up to $500 for wages paid to a qualified veteran who has received unemployment insurance benefits under the federal Unemployment Compensation Act for at least four weeks during the 12-month period prior to the individual's hiring date or is a member of a family that received supplemental nutrition assistance under the federal Food and Nutrient Act of 2008 for at least 3 consecutive months during the 12-month period prior to the individual's hiring date.

A business entity may claim an income tax credit of up to $1,200 for wages paid to a qualified veteran who has received unemployment insurance benefits under the federal Unemployment Compensation Act for at least 6 months during the 12-month period prior to the individual's hiring date.

A business entity may claim an income tax credit of up to $1,000 for wages paid to a qualified disabled veteran hired within one year from the date the individual was discharged or released from active duty in the U.S. Armed Forces.

A business entity may claim an income tax credit of up to $2,000 for wages paid to a qualified disabled veteran hired within one year from the date the individual was discharged or released from active duty in the U.S. Armed Forces and that has received unemployment insurance benefits under the federal Unemployment Compensation Act for at least 6 months during the 12-month period prior to the individual's hiring date.

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 business entities claiming the credit and the number of qualified veterans and disabled veterans hired in the previous taxable year.

Current Law: No similar State tax credit of this type exists, although businesses can deduct the wages paid to employees as a business expense, which typically lowers federal and State income tax liability. Additionally, a business that hires certain disabled individuals, including a veteran who has been discharged or released from active duty by the U.S. Armed Forces for a service-connected disability, may receive a tax credit of up to $1,800 in the first year and up to $1,200 in the second year for wages paid to these employees.

The federal government has enacted several tax credits that target unemployed or disabled veterans. The federal Work Opportunity Tax Credit (WOTC), which was first authorized by the Small Business Job Protection Act of 1996, was 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 ranged in value from $2,400 to $9,600, depending on whether the veteran was unemployed, entitled to service-connected disability compensation, and receipt of certain benefits. The American Taxpayer Relief Act of 2012 extended the credit through 2013, but it expired December 31, 2013.

Background: There are approximately 436,000 military veterans living in the State, of which 220,000 are in the labor force and 14,000 are unemployed. The State unemployment rate for veterans was 5.9% in 2013 compared with a 5.3% unemployment rate for veterans in 2012.

The Military Personnel and Veteran-Owned Small Business No Interest 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 veterans and specified businesses owned by or employing military reservists or National Guard personnel called to active duty. Since the inception of the program in 2006, the program has approved loan transactions totaling over $1 million.

State Revenues: General fund, TTF, and HEIF revenues decrease by a potentially significant amount beginning in fiscal 2015. However, the amount of revenue loss cannot be reliably estimated and depends on the number of businesses in the State that hire qualified veterans and disabled veterans and the number of qualified veterans hired.

The Department of Labor, Licensing, and Regulation (DLLR) reports that for the past three years, an average of 2,150 veterans received unemployment compensation for ex-service members (UCX). UCX is only available for former active duty military personnel or reservists that search for work after having just been released from active duty, and it does not include veterans who have a job after active duty and then subsequently become unemployed. While DLLR does not currently track the number of veterans who receive unemployment compensation, based on U.S. Census Bureau data, there are approximately 14,000 unemployed veterans in the Maryland workforce. Additionally, there are approximately 66,000 veterans who have a service-connected disability rating. Thus, there are up to 80,000 qualified veterans for whom businesses could claim a tax credit. The number of businesses that would hire these qualified veterans and seek the tax credit is unknown. Based on WOTC data from the federal Joint Committee on Taxation and the State’s share of the economy, the Comptroller’s Office estimates that revenues could decrease by approximately $200,000 annually.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $30,960 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. Additionally, the Comptroller's Office may incur potential additional costs to administer the tax credit and ensure compliance for the credit.

The Division of Unemployment Insurance within DLLR may incur potential costs to share unemployment insurance data with either the Comptroller's Office or employers, depending on how the credit is to be administered. If the division chose to grant online access to unemployment insurance records, expenditures would increase by $5,000 annually. If the division provided data to the Comptroller's Office, it would incur programming and maintenance costs. The Division of Unemployment Insurance is 100% federally funded, so general fund expenditures may increase for any costs incurred by the Division of Unemployment Insurance to share unemployment insurance information.

Local Revenues: Local governments receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease by a potentially significant amount beginning in fiscal 2015.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Veterans Affairs; Department of Business and Economic Development; U.S. Census Bureau; Joint Committee on Taxation; Internal Revenue Service; Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2014
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