HB 1034

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1034 (Delegate Platt, *et al.*)
Ways and Means

Income Tax - Job Creation Tax Credit - Long-Term Unemployed Individuals

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This bill allows a qualified business entity to claim the job creation tax credit for hiring a long-term unemployed individual. A long-term unemployed individual is an individual who has been unemployed for at least one year immediately before being employed by the qualified business entity.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues decrease by a minimal amount in FY 2017 through 2021 as discussed below. The Comptroller's Office and the Department of Commerce can implement the bill with existing resources.

Local Effect: Potential minimal decrease in local highway user revenues in FY 2017 through 2021. Expenditures are not affected.

Small Business Effect: Minimal. Qualifying small businesses that hire long-term unemployed individuals would be positively impacted through lower income taxes.

Analysis

Bill Summary: For long-term unemployed qualified employees working in a facility not located in a revitalization area, the credit is the lesser of $2,000 times the number of qualified employees employed by the business during the credit year and 2.5% of the wages paid to qualified employees by the business during the credit year.

For long-term unemployed qualified employees working in a facility located in a revitalization area, the credit is the lesser of $2,500 times the number of qualified employees employed by the business during the credit year and 5.0% of the wages paid to qualified employees by the business during the credit year.

Current Law: The job creation tax credit provides a tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. The credit can be applied against the following taxes: corporate or personal income; insurance premium; and public service franchise. In any year, however, the credit may only be applied against one tax. The credit can be recaptured during any of the three taxable years following the claiming of the credit. The program terminates January 1, 2020.

Businesses must be primarily engaged in a qualifying business activity. An eligible business must create 60 new jobs within a two-year period. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 150% of the federal minimum wage. The job creation threshold is lowered to (1) 30 new jobs if the average salaries of the new jobs are highly paid as determined by a sliding scale relative to the average State salary or (2) 25 new jobs if the new jobs are created within a State priority funding area.

The value of the credit depends on the number of jobs created, the wages of those jobs in the year the credit was claimed, and whether the jobs are located in a revitalization area.

- *Standard Credit*: The credit is equal to the lesser of $1,000 or 2.5% of the wages paid associated with those jobs in the year the credit was claimed.

- *Enhanced Credit:* If the jobs were created in a revitalization area, the credit is equal to the lesser of $1,500 or 5% of the wages paid associated with those jobs.

The credit is ratable for two years, with one-half of the tax credit amount allowable annually over two years beginning with the credit year. Any unused portion of the credit can be carried forward for up to five tax years. The total credit claimed cannot exceed $1 million for any one business.

Background: In fiscal 2015, 9 businesses were certified for $528,356 of job creation tax credits for creating 491 jobs. Between 2001 and 2014, the Department of Commerce has issued 179 certificates to businesses for creating 16,300 jobs with an average wage of approximately $48,000.

Nationally, the share of the unemployed who were out of work for 52 weeks or longer reached a record high of 31.9% in the second quarter of 2011. Historically, the share of the unemployed who were out of work for 52 weeks or longer hovered around 10%.

In Maryland, of the 179,000 individuals unemployed, 71,000 (39.4%) were unemployed for 27 weeks or longer.

State Revenues: The bill expands the job creation tax credit by $1,000 for each qualified long-term unemployed individual hired. However, the credit for each long-term unemployed individual is still capped at 2.5% of the wages paid by the qualified business entity to the qualified employee, or 5.0% if the long-term unemployed individual is working in a revitalization area. Thus, if a business entity not in a revitalization area hires a long-term unemployed individual earning $40,000 or less, the bill has no effect as the business entity may still only claim 2.5% of the employee's wages. If a business entity in a revitalization area hires a long-term unemployed individual earning $30,000 or less, the bill has no effect as the business entity may still only claim 5.0% of the employee's wages. Since the average wage of qualified employees under the job creation tax credit is $48,000, it is assumed that a fair number of businesses would not receive an enhanced credit.

General fund, TTF, and HEIF revenues decrease by a minimal amount beginning in fiscal 2017 to the extent that businesses hire qualified long-term unemployed individuals earning above $40,000 or, if in a revitalization area, $30,000. *For illustrative purposes only* if 25 of the 491 jobs created in 2015 for which a credit was claimed were from long-term unemployed qualified employees earning above the wage limits, revenues decrease by $12,500 in the first year when 50% of the credit is claimed, and by $25,000 in the next year. The program terminates on January 1, 2020, but tax credits earned before that date can still be claimed and may be carried forward.

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. To the extent that corporations claim credits for employing qualified long-term unemployed individuals, local highway user revenues decrease by a minimal amount beginning in fiscal 2017.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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