HB 1310

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1310 (Delegate Rosapepe, et al.)
Ways and Means Referred to Budget and Taxation

Work, Not Welfare, Tax Incentives

This enrolled bill expands the Work, Not Welfare, Tax Incentive Act by permitting an insurer to receive credits against premium taxes payable. It also provides that an employer receiving tax credits for hiring eligible individuals does not have to reduce the amount of the credit if an employee works for less than one full year because of death, disability, being released for cause, or voluntarily quitting. If the employee works for less than one full year for any other reason, the credit must be prorated by the amount of the year the employee worked.

The bill also provides that a qualified employment opportunity employee is an individual who has been receiving Aid to Families with Dependent Children (AFDC) benefits for at least three months prior to being hired, and has been a Maryland resident for at least six months prior to being hired.

This bill is effective July 1, 1996, and applies to all taxable years beginning after December 31, 1995, but before January 1, 2002. The tax credit is allowed only for employees hired on or after June 1, 1995, but before July 1, 1998.

Fiscal Summary

State Effect: General fund revenues and expenditures could decrease, depending on the number of individuals who are hired pursuant to this bill for whom this credit is claimed. A net gain for the State could result for second and third year credits, as discussed below. General and Transportation Trust Fund revenues could decrease for those credits which are not prorated under this bill.

Local Effect: Local revenues could potentially increase indeterminately. Expenditures would not be affected.

Fiscal Analysis

Background: Under current law, credits are granted against the corporate and individual income taxes, the public service company franchise tax and the financial institution franchise tax for hiring an individual who has been receiving Aid to Families with Dependent Children (AFDC) for at least the past six months. The credits equal 30% of the first $6,000 of wages and $600 of eligible child care expenses for the first year of employment; 20% of the first $6,000 of wages and $500 of eligible child care expenses for the second year of employment; and 10% of the first $6,000 of wages and $400 of eligible child care expenses for the third year of employment.

State Revenues: General fund revenues could decline an indeterminate amount. This decline depends on the number of eligible individuals hired by insurers and the wages and child care expenses paid, as well as the number of individuals who have been on AFDC for three to six months who are hired by any employer, which cannot be realistically projected. For each 100 individuals who are hired pursuant to this bill, the State would lose $240,000 in the first year, $170,000 in the second year, and $100,000 in the third year.

Revenues will also decline for each credit which would be claimed for employees hired for less than one year under the provisions of the Work, Not Welfare, Tax Incentive Act. The number of such credits claimed, and the amount they must currently be prorated, cannot be reliably estimated at this time.

Under current law, the employer receives a tax credit of 30% of the first $6,000 of wages paid to a qualified employment opportunity employee for the first year of employment. If the individual does not work for a full year because the individual voluntarily quits, is terminated for cause, dies, or becomes disabled, the employer must prorate the credit for the amount of the year worked. If an employee is hired at $5 per hour and works for nine months, for example, the credit is $1,350 (30% x $6,000 x 75%). Under this bill, there would be no proration, so the full credit of 30% of the first $6,000 of wages, or $1,800 in this case, may be claimed. If the individual does not work for a full year for any other reason, a prorated credit can be claimed. Under current law, no credit can be claimed under these circumstances.

Because the credit must be added back to income if the employer files the corporate or individual income tax, the revenue loss would not be the full difference between the prorated credit and the full credit. For the above example, assuming the employer pays the corporate income tax, general fund and Transportation Trust Fund revenues would decline by $450 because of the increase in the credit amount, but would increase by $31.50 because the credit is an addition to income (against the individual income tax the increase would be $22.50).

Credits claimed against the public service company franchise tax and the financial institution

franchise tax will result in a loss of the full difference between the prorated credit and the full credit, since there is no provision for an addback for these taxes.

State Expenditures: AFDC recipients receive $373 per month, on average. Half of this amount is paid by the federal government and half by the State. Therefore, for every individual who is taken off the AFDC rolls as a result of being hired pursuant to this bill, State expenditures would decline by $2,238 annually. While the number of individuals who would be hired pursuant to this bill cannot be estimated, approximately 8,800 additional individuals would fall under the revised definition of qualified employment opportunity employee. The net effect of one credit in the first year of employment would be a general fund loss of $162; in the second year, the net effect would be a general fund increase of $538; and in the third year, the net general fund increase would be $1,238.

The State would gain further if these individuals pay income taxes, although the resulting revenue increase, if any, cannot be determined at this time. Additionally, those individuals hired may benefit further through receipt of the federal earned income credit.

Local Revenues: Because credits claimed against the individual income tax must be added back to income, any increase in the amounts of these credits will result in an increase of piggyback revenue. In the example above, assuming the employer pays the individual income tax, the $450 increase in the credit would result in an addition of $450 to taxable income, resulting in an average local revenue increase of about $12.25.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Maryland Insurance Administration, Department of Fiscal Services

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