Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 218 (The President, et al.)
(Administration)
Budget and Taxation

Tax Credits - Creation of New Jobs and Employment of Individuals with Disabilities

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This Administration bill establishes job creation tax credits administered by the Department of Business and Economic Development (DBED). The aggregate total of credits may not exceed $10,000,000 in any fiscal year. Tax credits may be awarded to expanding or new businesses in targeted industry sectors who hire at least 50 qualified employees. Before approving any credit, DBED must wait 30 days after notifying the Legislative Policy Committee of the proposed deal. There are provisions to recapture the credit amount if employment at the business later falls below a certain percentage.

The bill also establishes tax credits for businesses who hire qualified employees with disabilities; this credit may not exceed $1,000 for each qualified employee. This tax credit program is administered by the Maryland State Department of Education (MSDE) along with the Comptroller.

This bill is effective July 1, 1996 and will apply to all taxable years beginning after December 31, 1995 for all employees hired after January 1, 1996.

Fiscal Summary

State Effect: Indeterminate significant decrease in State revenues due to the tax credits; other tax revenues could potentially increase by an indeterminate amount due to economic and employment development. The Administration's long-term general fund forecast assumes a $2 million loss in FY 1998 and a $4 million loss in FY 1999 and 2000 as a result of this program. Potential indeterminate decrease in expenditures on public assistance programs; potential administrative expenditure increase in the out-years depending upon program demand.

Local Effect: Indeterminate effect on local revenues; expenditures would not be affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). Fiscal Services concurs with this assessment as discussed below.

Fiscal Analysis

Bill Summary: In order to claim the job creation tax credit, a business entity must hire at least 50 qualified employees during a 24-month period. The business may claim a credit equal to 2.5% of the total wages paid by the business to all qualified employees subject to the State income tax; in a revitalization area the business may claim 5% of the total wages. A qualified employee must work for at least six months. The business must submit with its tax return certification from DBED that it has met all relevant requirements. If the credit allowed exceeds the total tax owed for that year by the business, then it may apply the excess as a credit in succeeding years until all the excess is used or ten years have passed; the credit may not be carried back to a preceding taxable year. The credit may be applied against the income tax, the public service company franchise tax, or the financial institution franchise tax.

If in the five years following the company's eligibility for the job creation tax credit the number of qualified employees at the business falls more than 5% below the average number of such employees employed during the year on which the credit was computed, then the credit may be recaptured.

In order to claim the tax credit for employment of individuals with disabilities, the business must hire an employee who has a disability, has received or is receiving vocational rehabilitation services from the Maryland State Department of Education (MSDE), and is ready for employment. The business may not claim tax credits for individuals hired to replace a laid-off or striking worker, or one for whom the business is simultaneously receiving federal or State training benefits. With certain exceptions, in order to claim the credit, the employee must be employed at least one year. The business may not claim this credit if it is claiming a tax credit for the same employee under the tax credit program for former Aid to Families with Dependent Children (AFDC) recipients.

The business may claim a credit for one taxable year equal to 10% of the first $10,000 in wages paid to each qualified employee subject to the State income tax. If the credit allowed exceeds the total tax owed for that year by the business, then it may apply the excess as a credit in succeeding years until all the excess is used or five years have passed. The credit may be applied against the income tax, the public service company franchise tax, or the financial institution franchise tax. If the business claims this credit, it must make the appropriate addition modification.

State Effect: The Administration's long-term general fund forecast assumes a $2 million loss in fiscal 1998 and a $4 million loss in fiscal 1999 and 2000 as a result of this program.

The following illustrations are based on the assumption that tax credits are taken against State individual or corporate income tax. However, businesses may also apply the credit against the financial institution franchise tax (7%), or the public service company franchise tax (2%).

Job Creation Tax Credit

The total amount of credits allowed under the job creation tax credit would depend upon the number of businesses who add at least 50 new employees within a two-year period, the total number of employees hired, the wages paid to each employee, and whether the business is located in a revitalization area. Each new employee would be paid a minimum of $6.38 per hour (150% of federal minimum wage) and work full time. For every 50 qualifying employees hired by a non-revitalization area employer at an annual salary of $13,260 per employee, credits totaling $16,575 would be permitted. If the employer is located in a revitalization area, total credits would be $33,150. Any credit applied to corporate income taxes will affect both general and special fund revenues, since approximately 23% of this tax is allocated to the Gasoline and Motor Vehicle Revenue Account (GMVRA); these special funds are then distributed 70/30 to the Transportation Trust Fund and to the local governments.

The aggregate amount of credits issued each fiscal year may not exceed $10,000,000. It is expected that this program will be phased in over a number of years, as a certain lag time would elapse before companies begin to respond to this program. A certain number of jobs that would qualify for the program would have been created anyway, either through the course of normal business expansion or a relocation based on other state incentives. To the extent that jobs would have been created absent the tax credit program, State revenues would decrease. However, if jobs are created through business relocations or expansions that would not have otherwise occurred, State tax revenues due to taxes on new business equipment and property purchases could potentially increase.

Tax Credit for Employment of Individuals with Disabilities

It is estimated that 2,300-2,500 persons with disabilities served by the Division of Rehabilitation Services will be eligible for employment in a given year. Approximately 75% of those jobs will be in the private sector. Assuming 1,800 individuals would become a qualified employee under this program, at a maximum $1,000 credit per employee, $1.8 million in credits would be allocated. However, because of the requirement for counting the credit as an addition modification, the overall tax revenue decrease would be somewhat less. For each $1,000 tax credit on an individual return, the maximum general fund loss would be $950 ($1,000 less the 5% tax on the addition modification). Credits taken against the corporate income tax would result in a cost of $930 for each maximum credit allowed, due to the 7% rate on the addition modification. Again, any credit applied to corporate income taxes will affect both general and special fund revenues, since these funds are divided between the general fund and GMVRA. Therefore, with the assumption of 1,800 eligible individuals, the total lost revenues would amount to $1.67 to $1.71 million.

A certain number of jobs that would qualify for the program would have been created anyway. To the extent that jobs would have been created absent the tax credit program, State revenues would decrease. While this legislation is currently expected to affect 2,300 to 2,500 individuals, additional eligible persons may request vocational rehabilitation services through MSDE should this tax credit increase the employment opportunities for prior clients.

Agency Administrative Expenditures

MSDE reports that it can handle all reporting and certification provisions with existing resources. However, should the client base increase as noted above, expenditures on vocational rehabilitation services could potentially increase.

DBED reports that it would need one professional and one-half support positions to handle the requirements of this bill. DBED anticipates analyzing potential projects according to industry sector and projected economic benefits, and having to report these results to the Legislative Policy Committee. The Department of Fiscal Services advises that in fiscal 1997, these responsibilities could be handled with existing budgeted resources. Additional staff might be needed in the out-years depending upon the level of demand for the program; for the 1.5 positions noted above this would cost approximately $70,000.

State Expenditures on Assistance Programs

If any of the employees for whom either credit is claimed were receiving unemployment benefits immediately prior to their being hired, expenditures from the Unemployment Trust Fund would decline. Additional savings may result from employment opportunities for individuals receiving other forms of public assistance.

Local Revenues: To the extent that this legislation spurs employment and economic development, tax revenues could increase. Local revenues from the piggyback tax on individual income tax returns would increase due to the addition modification on the tax credit for employment of individuals with disabilities. However, local revenues that result from the distribution of GMVRA funds would decrease.

Small Business Effect: As noted in the Administration analysis, small businesses could benefit from the Job Creation Tax Credit due to indirect effects (such as if they are a supplier to a business that qualifies for the credit). However, non-eligible small businesses that compete in any way with larger businesses that qualify for these credits would be put at a competitive disadvantage.

Information Source(s): Comptroller of the Treasury, Maryland State Department of Education, Department of Business and Economic Development, Department of Assessments and Taxation, Public Service Commission, Department of Fiscal Services

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