Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 248 (Senator Currie, et al.)
Budget and Taxation Referred to Ways and Means

Work, Not Welfare, Tax Incentives

This enrolled bill expands the Work, Not Welfare, Tax Incentive Act by revising the definition of a "qualified employment opportunity employee" and permitting an insurer to receive credits against premium taxes payable. The revised definition of a "qualified employment opportunity employee" includes any individual who received Aid to Families with Dependent Children (AFDC) benefits for three months before the individual was hired and who was a Maryland resident for six months before the individual was hired. Under current law, a qualified employment opportunity employee is an individual who was a Maryland resident and a recipient of State AFDC benefits for six months before the individual was hired.

In addition, the bill alters the manner of calculating a tax credit for wages paid to a qualified employment opportunity employee who voluntarily terminates employment within one year to take a position with another employer. Under such circumstances, the original employer may claim a tax credit of 30% of the first $6,000 of wages paid to the employee.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund revenues would decrease and general fund expenditures would decrease, depending on the number of individuals for whom this credit is claimed. The maximum loss from the changes made by the bill is estimated at $370,000 in the first year. Second and third-year credits will result in a net gain to the State.

Local Effect: Revenues would increase depending on the amount of credits claimed by employers filing an individual income tax return, and revenues would decrease depending on the amount of credits claimed by employers filing a corporate income tax return. Expenditures are not affected.

Fiscal Analysis

State Revenues: Expanding the Work Not Welfare Tax Incentive Program as provided by this bill could impact State revenues in three ways:

- *Revising the Definition of a "Qualified Employment Opportunity Employee"*- The bill alters the definition of a "qualified employment opportunity employee" by providing that the individual must have received AFDC benefits for three months (rather than six months) before the individual was hired. As a result, 8,800 additional adults could meet the revised definition of a "qualified employment opportunity employee." If all of these individuals are hired and the maximum credit is claimed against the individual income tax for each, the maximum revenue loss to the State would be $20.06 million in the first year. This figure represents the maximum loss of revenue and is included for illustrative purposes only.

- *Permitting an Insurer to Receive Credits Against Premium Taxes Payable* - The total credits claimed against premium taxes would depend on the number of qualified employment opportunity employees hired by insurers and the wages and child care expenses paid which cannot be realistically projected. The following example is provided to illustrate the possible impact on revenues. For each 100 individuals who qualify as employment opportunity employees and are hired by an insurer, the State would lose $240,000 in premium tax revenue in the first year, $170,000 in the second year, and $100,000 in the third year.

- *Altering the manner of calculating a tax credit for wages paid to certain qualified employment opportunity employees* - The bill alters the method of calculating a tax credit if an employee is employed for less than one year because the employee voluntarily terminates employment to take a position with another employer. Under current law, an employer must reduce the tax credit for such an employee to reflect the proportion of the year that the employee did not work. As provided by this bill, an employer may take a tax credit of 30% of the first $6,000 in wages earned by such an employee. Therefore, the maximum tax credit for such an employee would be $1,800. As compared to current law, the bill provides a greater tax credit to an employer if a qualified employee works for less than 75% of a year and a lesser tax credit if an employee works for more than 75% of a year.

For each maximum credit claimed by an employer who files an individual income tax return, general fund revenues will decline by $2,280 in the first year of employment, $1,615 in the second year of employment and $950 in the third year of employment. The loss of the credit, $2,400 in the first year, is partially offset by the addition modification.

Corporate income tax revenues are distributed to the general fund, the Transportation Trust Fund (TTF), and the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the TTF. For each maximum credit claimed by an employer who files a corporate income tax return, general fund revenues will decline by $1,674 in the first year, $1,186 in the second year and $697 in the third year. TTF revenues will decline by $239, $169, and $100, respectively. The State's share of the GMVRA revenues (70% of the total) will decline by $223, $158, and $93, respectively.

Each credit taken against the public service company franchise tax, the financial institution franchise tax, or the insurance premium tax will result in a maximum general fund loss of $2,400 in the first year, $1,700 in the second and $1,000 in the third.

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 their being hired as a qualified employment opportunity individual, State expenditures will decline by $2,238 annually. If 8,800 potentially eligible individuals are hired and removed from the AFDC rolls, State expenditures would decline by $19.69 million annually.

Net Effect

Assuming 8,800 individuals are hired, the maximum credit is claimed for each against the individual income tax, and all are permanently removed from the AFDC rolls, the net change to State funds would be a loss of $370,000 in the first year, a gain of $5.5 million in the second, $11.3 million in the third and the full $19.7 million afterward.

Obviously, not all of these assumptions will be met. However, the above results can be generalized. The table below shows the effect of these credits against the various taxes. Furthermore, the net savings to the State will increase in the out-years if benefits increase.

Exhibit 1
Fiscal Impact of Individual Credits Against Various Taxes

	Individual Income Tax	Corporate Income Tax	Franchise Taxes	Premium Taxes
Max 1st Year Credit	($2,400)	($2,400)	($2,400)	($2,400)
Addback	120	168	0	0
Net Loss	(2,280)	(2,232)	(2,400)	(2,400)
Expenditures Savings	2,238	2,238	2,238	2238
Net Change	($42)	$6	($162)	($162)
Max 2nd Year Credit	($1,700)	($1,700)	($1,700)	($1,700)
Addback	85	119	0	0
Net Loss	(1,615)	(1,581)	(1,700)	(1,700)
Expenditure Savings	2,238	2,238	2,238	2,238
Net Change	$623	$657	$538	$538
Max 3rd Year Credit	($1,000)	($1,000)	($1,000)	(1,000)
Addback	50	70	0	0
Net Loss	(950)	(930)	(1,000)	(1,000)
Expenditure Savings	2,238	2,238	2,238	2,238
Net Change	$1,288	$1,308	$1,238	$1,238

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The State will gain further if these individuals pay income taxes, although the resulting revenue increase, if any, cannot be determined at this time.

Additionally, the qualified employment opportunity individuals may benefit further through the receipt of the federal earned income credit.

Local Revenues: For those credits claimed by employers filing an individual income tax return, local government revenues will increase because the credit, which is against the State income tax only, must be added back to income. Therefore, for every credit claimed, local revenues will increase by an average $65 in the first year, $446 in the second and $27 in the third.

For those credits claimed by employers filing a corporate income tax return, local government revenues will decrease because of the distribution to local governments from the GMVRA. Baltimore City receives 15% of the funds in this account, and the counties receive another 15%. Therefore, Baltimore City and county revenues will each decline by $51 in the first year for each credit claimed by a corporation, $36 in the second and $21 in the third.

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

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