Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 249 (Senator Currie, et al.)
Budget and Taxation

Work, Not Welfare, Tax Incentive Act - Corrective Amendment

This emergency bill provides that an employer receiving tax credits for hiring individuals under the Work, Not Welfare, Tax Incentive Act does not have to reduce the amount of the credit if an employee works for less than one full year for specified reasons. Under current law, the credit must be prorated by the amount of the year the employee worked.

Fiscal Summary

State Effect: Potential indeterminate general and special fund revenue loss beginning in FY 1996. Expenditures would not be affected.

Local Effect: Potential indeterminate revenue increase. Expenditures are not affected.

Fiscal Analysis

State Revenues: Revenues will 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 is no proration, so the full credit of 30% of the first \$6,000 of wages, or \$1,800 in this case, may be claimed. 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.

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 tax increase of about $12.25.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Assessments and Taxation, Department of Fiscal Services

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