HB 1140

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1140 (Delegate Benson*, et al.*)
Appropriations

Family Investment Program - Qualified Employment Opportunity Employees - Newly Created Jobs

This bill requires the Department of Human Resources (DHR) to assist the local departments of social services in identifying employers with jobs and matching Family Investment Program (FIP) recipients to newly created jobs that pay the greater of the prevailing wage, the wages and benefits paid to employees in equal positions, or wages sufficient to support a family of four above the official poverty level (approximately $7.50 per hour).

In order to receive the Work, Not Welfare tax credit, businesses must be filling newly created positions, and not in any way displacing current employees or service contracts, and must pay specified wages. In addition, any business, even one not receiving a tax credit, that hires a "qualified business opportunity employee" or FIP recipient must pay wages as specified above and be filling entirely new positions.

Fiscal Summary

State Effect: Significant increase in State expenditures; indeterminate effect on revenues.

Local Effect: Potential increase in local expenditures; indeterminate effect on revenues.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Bill Summary: The bill requires that a business may not claim the Work, Not Welfare tax credit unless it notifies the Department of Labor, Licensing, and Regulation (DLLR) that the position for which the "qualified employment opportunity employee" was hired was a newly created position. A business cannot claim the tax credit for an employee when the hiring of the employee is combined with any displacement of a current employee, or results in the impairment of existing contracts for services or collective bargaining agreements. Nor can a credit be claimed for an employee who is hired to fill a position that is the same or equivalent to the position of a laid-off employee, or that was created through the termination of a current employee or other reduction in the employer's workforce used to create a vacancy.

Before hiring "qualified business opportunity employees" or FIP recipients, a business must certify to DLLR that the positions are newly created positions and that the employee or recipient will be paid the greater of the prevailing wage, the wages and benefits paid to employees in equal positions, or wages sufficient to support a family of four above the official poverty level. DLLR must monitor business entities to ensure compliance with this provision. If DLLR determines that the business is not in compliance, it may impose a civil penalty on the business. DLLR must adopt regulations on the appropriate civil penalties that may be imposed for noncompliance.

State Effect:

Work, Not Welfare Tax Credit

The bill puts a number of restrictions on businesses that wish to qualify for Work, Not Welfare tax credits. Businesses must pay specified wage amounts, and must not in any way have displaced current or former employees in order to hire a qualified employee for purposes of the tax credit. In addition, businesses cannot impair existing contracts for services or collective bargaining agreements.

It is assumed that due to these provisions, the number of businesses that would apply for and receive Work, Not Welfare tax credits could decrease significantly, particularly due to the wage provisions of the bill. Current law provides for less strict requirements in regards to new job creation. However, it cannot be determined at this time exactly how many tax credit applicants could be affected. Businesses currently qualified under this tax credit have employed approximately 4,000 since the July 1, 1995 starting date; for previous legislation this session (House Bill 133) DLLR reported that the average starting wage for someone employed under this tax credit was approximately $6 per hour. Under this bill, employees must make at least $7.50 an hour (the wage sufficient to keep a family of four above the official poverty level); should prevailing or equivalent wages for the position be higher than $7.50, the employee must make the higher amount.

Work, Not Welfare tax credits taken on an individual return affect general fund revenues. 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 local governments. The credit could be applied against the financial institution franchise tax, the public service company franchise tax, or the insurance premium tax rather than the income tax.

The bill's provisions will result in fewer employment opportunities for affected individuals; however, it could also decrease the incidence of existing employees who are displaced or replaced to make way for "qualified business opportunity employees" or FIP recipients. The overall effect of these two impacts on tax revenues cannot be determined at this time.

Administrative Expenditures

DLLR did not respond to requests for information on this legislation. However, the bill requires that businesses provide the department with additional information prior to certification to receive Work, Not Welfare tax credits. In addition, any business that wishes to hire "qualified business opportunity employees" or FIP recipients must provide information on employee wages and job creation. DLLR must monitor businesses to ensure compliance, and must adopt regulations on civil penalties to impose in cases of noncompliance.

It is assumed that these additional requirements could cause a significant increase in workload for DLLR, particularly due to the monitoring provisions of the bill. The number of additional personnel and equipment that would be needed would depend upon the number of businesses that hire affected individuals and would need to be monitored for compliance by DLLR. The Department of Human Resources (DHR) reports that it would also incur some additional administrative expenditures, due to the bill's provisions on assisting in finding jobs for individuals that meet the specified criteria.

Some increase in revenues could result from the bill, depending upon the extent and type of civil penalties that might be invoked.

Impact on Welfare Reform and Other Public Assistance Programs

Since the bill's effect is to reduce the number of jobs available to Temporary Cash Assistance

(TCA) recipients, TCA assistance payments could be affected to a significant extent. First, cash assistance payments are reduced to reflect a recipient's income, so TCA payments could increase to a significant extent as fewer TCA recipients are able to find employment. Second, federal welfare reform legislation mandated work requirements that all families receiving assistance must meet. A member of the family must be working after 24 months of receiving assistance, or else the family's benefits end, thereby decreasing TCA payments by a significant amount.

In federal fiscal 1997, 25% of families must be engaged in a work activity of 20 hours or more. The percentage grows each year until, by the end of the year 2002, 50% of the families must be engaged in a work activity of 30 hours or more. States not meeting the required work participation rate for any one year will have their Temporary Assistance to Needy Families (TANF) block grant amount grant reduced by 5%. The State is expected to receive a grant of $229.1 million in fiscal 1998 for temporary cash assistance and other social services. If there are consecutive year failures, penalties increase 2% a year up to a maximum grant reduction of 21%.

However, to the extent that individuals formerly receiving public assistance do secure jobs, the wage provisions of this bill could decrease State assistance for transitional costs such as child care. Also, to the extent that fewer existing or former employees are displaced prior to the hiring of "qualified business opportunity employees" or FIP recipients, expenditures from the Unemployment Trust Fund would decline.

Local Effect: To the extent that local governments contribute to public assistance programs for individuals in their jurisdictions, local expenditures could increase. The overall effect of the legislation on tax revenues through employment cannot be determined at this time. However, local revenues that result from the distribution of GMVRA funds could increase due to the decrease in tax credits given.

Small Business Effect: Under the bill's provisions, employers would be less likely to receive Work, Not Welfare tax credits. In addition, any employer that wished to hire "qualified business opportunity employees" or FIP recipients would have to pay specified wages and be creating new jobs to do so. These employers would have to certify these requirements with DLLR; any that did not or misreport information could be liable for civil penalties. This could additionally provide grounds for legal challenge to employers from previous or current employees.

It is not known at this time how many small businesses would be impacted by these provisions. Businesses currently qualified under the Work, Not Welfare tax credit have employed approximately 4,000 since the July 1, 1995 starting date; for previous legislation DLLR reported that the average starting wage for someone employed under this tax credit was approximately $6 per hour.

Information Source(s): Office of the Comptroller, Department of Assessments and Taxation, Department of Human Resources, Department of Fiscal Services

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Analysis by:	Kim E. Wells-McDonnell	Direct Inquiries to:
Reviewed by:	John Rixey	John Rixey, Coordinating Analyst
		(410) 841-3710
		(301) 858-3710