Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1320 (Delegate Marriott*, et al.*)
Ways and Means

Employment Opportunity and Enterprise Zone Tax Credits - Living Wage

---

This bill provides that in order to qualify for Enterprise Zone incentives or the Work, Not Welfare tax credit, a business must pay an employee a "living wage" within one year of employment. A living wage is defined as one that meets or exceeds the poverty level for a family of four (approximately $7.50 per hour) based on a 40-hour workweek. If the employer does not provide employer-paid basic health insurance, the wage must meet or exceed 110% of the aforementioned poverty level (approximately $8.25 per hour). Specific provisions apply to a business entity in its first year of existence.

Fiscal Summary

State Effect: Indeterminate effect on State expenditures and 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

State Effect:

Tax Credit Impacts

It is assumed that due to the wage requirements of the bill, the number of businesses that would apply for and receive Work, Not Welfare and Enterprise Zone tax credits could decrease significantly. The amount of such a decrease cannot be predicted at this time, and would depend upon the number of companies either already paying qualified individuals at the higher rates or willing to do so without a commensurate increase in the tax credit amounts.

Businesses currently qualified under the Work, Not Welfare tax credit have employed approximately 4,000 individuals since the July 1, 1995 starting date; the Department of Labor, Licensing, and Regulation (DLLR) reports that the average starting wage for someone employed under this tax credit was approximately $6 per hour. An increase to a wage of $7.50 per hour would amount to $3,100 per year per employee, assuming a 40-hour work week. An increase to a wage of $8.25 per hour would amount to $4,700 per year per employee. The maximum tax credit is $1,800 in the first year, $1,200 in the second, and $600 in the third. (There is an additional credit available for eligible child care costs).

For the 1994 tax year, Enterprise Zone credits of $119,000 were claimed on personal income tax returns and $332,000 was claimed on corporate tax returns. The current salary level for someone employed under this tax credit is not known at this time. However, as of September 1, 1997 the minimum wage will be $5.15 per hour. An increase to a wage of $7.50 per hour would amount to $4,900 per year per employee over minimum wage. An increase to a wage of $8.25 per hour would amount to $6,500 per year per employee over minimum wage. The maximum tax credit allowed is $1,500 per employee.

For fiscal 1996, 251 businesses received Enterprise Zone property tax credits of approximately $2.8 million. However, these credits are applicable to the increased value of assessed property, and are not contingent on employment measures. Therefore, these credits should not be affected under this bill.

Tax credits taken on an individual return affect general fund revenues. Any credit applied to corporate incomes 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 also be applied against the financial institution franchise tax, the public service company franchise tax, or the insurance premium tax rather than the income tax.

Impact on Welfare Reform and Other Public Assistance Programs

To the extent that the bill reduces 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. It would also potentially increase any income tax revenues associated with these jobs.

Local Effect: To the extent that local jurisdictions contribute to public assistance programs for individuals in their jurisdictions, local expenditures could increase. The overall effect of the legislation on tax revenues through employments 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, though tax revenues would be lost on required income tax addition modifications.

Small Business Effect: It is assumed that due to the wage requirements of the bill, the number of businesses that would apply for and receive Work, Not Welfare and Enterprise Zone tax credits could decrease significantly. The amount of such a decrease cannot be predicted at this time, and would depend upon the number of companies either already paying qualified individuals at the higher rates or willing to do so without a commensurate increase in the tax credit amounts.

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; DLLR reports that the average starting wage for someone employed under this tax credit was approximately $6 per hour. An increase to a wage of $7.50 per hour would amount to $3,200 per year per employee, assuming a 40-hour work week. An increase to a wage of $8.25 per hour would amount to $4,700 per year per employee. The maximum tax credit is $1,800 in the first year, $1,200 in the second, and $600 in the third. (There is an additional credit available for eligible child care costs).

For the 1994 tax year, enterprise zone credits of $119,000 were claimed on personal income tax returns and $332,000 was claimed on corporate tax returns. The current salary level for someone employed under this tax credit is not known at this time. However, as of September 1, 1997 the minimum wage will be $5.15 per hour. An increase to a wage of $7.50 per hour would amount to $4,900 per year per employee over minimum wage. An increase to a wage of $8.25 per hour would amount to $6,500 per year per employee over minimum wage. The maximum tax credit allowed is $1,500 per employee.

Information Source(s): Office of the Comptroller, Department of Assessments and Taxation, Department of Business and Economic Development

Fiscal Note History: First Reader - March 3, 1997
ncs

Analysis by: Kim E. Wells-McDonnell
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710