SB 254

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 254 (Senator Currie*, et al.*)
Budget and Taxation

Worker Retraining Tax Credit Act

This bill allows employers to claim a tax credit for providing on-the-job or community college training to employees for whom the employer has received specified federal or State tax credits or who is a resident of a designated empowerment or enterprise zone. In order to qualify, the employee must be in a position that pays at least 10% more than the wages prior to training. The credit allowed may be up to $2,500, depending upon the training costs incurred.

A company must submit to the Department of Labor, Licensing and Regulation (DLLR) a proposal for a training program. DLLR must approve or disapprove of the proposal within 60 days; the approval letter must specify the maximum amount of credits allowed, the amount of expenses that qualify, and the maximum per-employee credit. A disapproval letter must specify the reasons for disapproval. DLLR may only approve up to $2 million in tax credits per fiscal year. The bill applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: State tax revenues could decrease significantly due to the credit; up to $2 million in tax credits can be approved per year. Tax revenues could increase by an indeterminate amount due to the wage increase provisions in the bill and any increased economic and employment development. 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; potential indeterminate decrease in local expenditures.

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

Fiscal Analysis

State Effect: Revenues would decrease by a significant amount annually; up to $2 million in tax credits may be approved per year. The actual amount of tax credits claimed per year would depend upon when approved training was conducted and the taxable income of the business in the year the training is conducted; the tax credit may be carried over for five years.

Assumptions about the Cost of the Credit

A qualified employee under the bill includes one for whom the employer has paid wages that would qualify under the federal Work Opportunity Tax Credit or the Targeted Jobs Tax Credit (TJTC). These federal programs are provided for the employment of a wide range of individuals, from economically disadvantaged ex-felons to youths in summer jobs. However, a majority of the individuals specified have been receiving some form of public assistance. The Comptroller's Office advises that 20,000 to 30,000 individuals are employed annually under the TJTC program; no information is yet available on the new federal Work Opportunity Tax Credit.

Businesses currently qualified under the Maryland Employment Opportunity Credit (Work, not Welfare, Tax Incentive Act) have employed approximately 4,000 individuals since the July 1, 1995 starting date. These credits apply to the wages and child care expenses paid by an employer to an employee who had been receiving Aid to Families with Dependent Children (AFDC) benefits for six months before being hired. In addition, an average of about 1,000 jobs qualify annually under the enterprise zone credit.

At the $2,500 credit amount, a maximum of 800 employees annually could be trained under approved programs. At the $1,000 credit amount, a maximum of 2,000 employees could be trained annually. Should the majority of employers be approved for a $1,000 tax credit resulting in an average of $1,500 per employee, 1,333 employees could be trained under programs approved annually.

Credits taken on an individual income tax 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 the 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 credit amount allowed would be the same. In addition, a non-profit organization exempt from taxation may apply the tax credit against income due on unrelated business taxable income.

Tax Revenue Increase due to Wage Increase and Economic Development

DLLR advises that the average starting salary for someone whose employer is eligible for the Maryland Employment Opportunity Credit is approximately $6 per hour. Under this bill, to be eligible for the credit, an employee at the average starting wage of $6.00 must be making at least $6.60 per hour after the approved training. This increase in salary will result in increased State income tax collections; the total increase will depend upon the income earned, the number of exemptions claimed by the individual, and any qualifying earned income tax credit claimed. It is presumed that some workers will be part-time employees while others may be working overtime hours; this would affect the real income earned per individual. In addition, to the extent that this tax credit spurs economic and employment development, additional tax revenues could result.

Administrative Costs

There will be no additional expenditures by the Comptroller, as the current credit form for businesses could be expanded to incorporate this credit. DLLR reports that it would need one additional position to handle the credit and certification requirements of this bill. The Department of Fiscal Services advises that in fiscal 1998, 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 one position noted above this would cost approximately $45,000 annually. It should be noted that administrative costs could also increase if any kind of enforcement or auditing provisions were implemented; however, this is not required under the bill.

State Expenditures on Public Assistance

The training provisions and wage increase included in this bill could increase job retention abilities for individuals targeted. Since many of these individuals previously received public assistance, this could decrease the number of individuals returning to various public assistance programs and receiving State funds. Any decrease in employment loss would also lead to decreased unemployment insurance payments. In addition, job retention for previously convicted felons could possibly decrease the recidivism rate for these individuals, thus leading to a decrease in public safety expenditures.

Local Effect: To the extent that this legislation spurs employment and economic development, tax revenues could increase. In addition, local tax collections would benefit from employee wage increases required in the bill. However, local revenues that result from the distribution of GMVRA funds would decrease due to the tax credit received by the business.

Any decrease in the recidivism rate as discussed above could lead to a decrease in local expenditures on public safety.

Small Business Effect: Small businesses that hire individuals that would qualify them for the tax credit could benefit under this legislation. This would particularly benefit those businesses in the service economy and other industries that utilize lower-wage workers. Businesses that provide employee training may be eligible to receive $1,000 to $2,500 per qualified employee. In addition, the tax credit may induce other businesses to offer training programs to their employees. Thus, small businesses that contract out to provide on-the-job training could realize increased income as a result of this bill.

In addition, those small businesses that specialize in assisting other businesses in documenting and receiving employee-related tax credits could see an increase in business.

Information Source(s): Department of Labor, Licensing and Regulation, Comptroller of the Treasury, Department of Assessments and Taxation, Public Service Commission, Maryland Insurance Administration, Department of Fiscal Services

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