HB 496

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 496 (The Speaker, *et al.*) (Administration)
Ways and Means | Referred to Budget and Taxation

Tax Credits - Employment of Individuals with Disabilities

This amended Administration bill creates a tax credit for employers who hire individuals with disabilities.

This bill is effective October 1, 1997, applies to all taxable years beginning after December 31, 1996 but before January 1, 2003. This bill sunsets on December 31, 2000, although carry-forward credits can continue to be claimed.

Fiscal Summary

State Effect: Indeterminate general fund and Transportation Trust Fund (TTF) revenue loss in the first years of the program; potential indeterminate general fund revenue increase in the out-years. Expenditures could be reduced as discussed below.

Local Effect: Indeterminate increase of piggyback revenues and indeterminate loss of revenues distributed through the TTF. Expenditures would not be affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small businesses (attached). Fiscal Services concurs with this assessment as discussed below. (The attached assessment does not reflect the amendments to the bill.)

Fiscal Analysis

Bill Summary: This bill creates a tax credit for employers for wages paid to qualified employees with disabilities and for child care or transportation expenses provided or paid for by an employer of such an employee. A qualified employee with a disability is an individual who meets the definition of an individual with a disability as defined by the Americans with Disabilities Act whose disability is an impediment to obtaining or maintaining employment, and who has been certified by the Division of Rehabilitation Services (DORS) of the Maryland Department of Education.

The maximum credit is 20% of the first $6,000 of wages for each of the first two years of employment, and $600 of qualified child care or transportation expenses for the first year of employment and $500 of such expenses for the second year of employment. The credit may only be claimed for employees hired on or after October 1, 1997 but before January 1, 2001.

The credit may be claimed against State individual and corporate income taxes, public service company and financial institution franchise taxes, and the insurance premium tax, but the amount of the credit must be added to income as an addition modification for income tax purposes. The credit may not be claimed for an employee hired to replace a laid-off employee or one who is on strike, for an employee for whom federal or State employee training benefits are received, or for an employee for whom the Work, Not Welfare tax credit is received. If the credit exceeds tax liability for a taxable year it can be carried forward for up to five years or until the full amount of the credit is used.

The Department of Fiscal Services is required to study the effectiveness of this tax credit in consultation with the Maryland Department of Education and other State agencies. Fiscal Services must report to the Senate Budget and Taxation Committee and the House Committee on Ways and Means by December 1, 1999.

State Effect: This bill will result in a loss of general and special fund revenues through the tax credits. This loss may be offset to some degree by increased individual income tax revenues for those individuals hired pursuant to this bill, and by reduced Medicaid expenditures.

For each maximum credit claimed by an employer who files an individual income tax return, general fund revenues would decline $1,710, accounting for the 20% of $6,000 of wages, the $600 child care or transportation credit, and the addition modification. The second year loss would be $1,615. Each maximum credit claimed against the corporate income tax would reduce general fund revenues by about $1,256 and Transportation Trust Fund (TTF) revenues by $418 in the first year of employment, and $1,186 and $395, respectively, in the second year. Credits claimed against the franchise taxes and insurance premium tax would result in losses of $1,800 and $1,700, as no provision is made for the addback of the credit.

The average weekly salary of individuals served by DORS is $227, or $11,800 annually. For a single individual, State income taxes on this amount would be $382. Any individuals with children and this amount of income (and up to about $17,400) would not incur any income tax liability because of the earned income credit. For the average disabled individual without children hired by a taxpayer filing an individual income tax return, general fund revenues would decline $758. For the average disabled individual without children hired by a corporation, general fund revenues would decline a net $455, and TTF revenue would decline a net $300. It is likely that most disabled individuals claiming more than one exemption would result in the full losses discussed above, without an offsetting increase in income tax revenue.

There may be minimal savings attributable to reductions in Medicaid expenditures. The State's share of these expenditures ranges from about $1,500 to $20,000, depending on the type of care provided.

The Department of Fiscal Services advises that the net effect of this bill is an indeterminate general fund and TTF revenue loss in the first years of the program. The loss depends on the number of employees for whom the credit is claimed; the number of these individuals who would have been hired anyway, in the absence of these credits; the amount of any offsetting income tax increase and expenditure decrease; and the amount of any increase in social service expenditures due to other workers being displaced. If the individuals hired under this program remain employed beyond the time for which the credit can be claimed by their employers, the net effect to the State could be positive as the employees would continue to pay individual income taxes; no credits would claimed; and State expenditures on services provided could be reduced or eliminated.

Further, it is likely that some portion of the jobs for which the credit is claimed would not be newly created jobs; they would have been filled by able-bodied individuals. Since these individuals will not be hired because of the credits, unemployment insurance benefit payments or social service expenditures could increase. Any such increase cannot be reliably estimated.

About 2,300 individuals with disabilities are hired annually under current law, many by governments and nonprofit organizations who could not claim this credit. DORS estimates that this bill would cause the hiring of an additional 200 individuals, and that 1,680 individuals would be qualified employees of employers who could claim the credit. The bill would therefore result in a first year revenue loss of about $2.8 million if the maximum credits are claimed against the income tax. This would be offset by $76,400 of income tax revenue from the 200 additional hires, for a net loss of $2.7 million. If the incentive effect of this bill causes more than 200 additional hires, the net first-year loss would be $755 per employee. Fiscal Services again advises that the actual net effect of this bill depends upon a number of factors, including the number of disabled individuals who would be hired under current law and the number hired because of the incentive effect of this bill. These factors cannot be reliably estimated at this time.

Local Revenues: Revenues would increase through the piggyback tax to the extent that employees hired under this program pay the individual income tax. Any such increase would be 54.5% of the State increase.

For those credits claimed by employers filing a corporate income tax return, local government revenues will decline because of the distribution to local governments from the TTF.

Due to the addback required for individual and corporate income taxes, local revenues would increase. This increase would average $49 for each credit claimed against the individual income tax, and a minimal amount for each credit claimed against the corporate income tax.

Small Business Effect: The Administration's analysis is correct as far as it goes, but the Department of Fiscal Services believes several additional points should be raised. Small businesses which would have hired individuals with disabilities regardless of this bill would receive the full value of these credits. Those small businesses which are induced to hire individuals with disabilities rather than other individuals will receive the full benefit of these credits less any costs (training, facility modification, etc.) which are directly attributable to the employee's disabilities. Those small businesses which are induced to create jobs to hire individuals with disabilities will receive the full benefit of these credits less any costs directly attributable to the employee's disabilities and any general employee training, outfitting, or expansion costs.

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

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