SB 446

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 446 (Senator McFadden)
Budget and Taxation

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

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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 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 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: 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

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. Before hiring "qualified employment 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 or wages sufficient to support a family of four above the official poverty level.

State Effect:

Work, Not Welfare Tax Credit

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 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; 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. 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.)

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.

Administrative Expenditures

The bill requires that businesses hiring qualified business opportunity employees must provide DHR or local departments with information on employee wages and job creation. 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. The amount of additional workload resulting from these provisions would depend upon the number of businesses that continue to hire qualified employees and whether DHR must verify the information provided

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 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, 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 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. In addition, any employer that wished to hire "qualified business opportunity employees" would have to pay specified wages and be creating new jobs to do so even if these businesses are not applying for a tax credit.

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 individuals 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. 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).

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

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