

HOUSE BILL 565

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1998 Regular Session
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By: ~~Delegates Shriver, C. Davis, Bozman, Hixson, Howard, and Healey~~
Healey, and Cryor

Introduced and read first time: February 5, 1998

Assigned to: Ways and Means

Committee Report: Favorable with amendments

House action: Adopted

Read second time: March 20, 1998

CHAPTER _____

1 AN ACT concerning

2 **Work, Not Welfare Tax Incentive Act - Child Care ~~and~~ or Transportation**
3 **Expenses**

4 FOR the purpose of extending and amending the Work, Not Welfare Tax Credit to
5 allow a credit against the State income tax, financial institution franchise tax,
6 insurance premium tax, and public service company franchise tax for certain
7 wages paid and certain child care ~~and~~ or transportation expenses incurred by a
8 business entity with respect to certain employees; providing a calculation for the
9 credit; requiring the Department of Legislative Services to conduct a certain
10 study and report to certain committees of the General Assembly; requiring
11 certain units of State government to make certain reports to the Governor and
12 General Assembly; modifying the termination of a certain Act; providing for the
13 application of this Act; and generally relating to a credit against the State
14 income tax for certain wages paid and certain child care ~~and~~ or transportation
15 expenses incurred by a business entity with respect to certain qualified
16 employment opportunity employees.

17 BY repealing and reenacting, with amendments,
18 Article 88A - Department of Human Resources
19 Section 54
20 Annotated Code of Maryland
21 (1995 Replacement Volume and 1997 Supplement)

22 BY repealing and reenacting, with amendments,
23 Article - Insurance
24 Section 6-105.1

1 Annotated Code of Maryland
2 (1997 Volume)

3 BY repealing and reenacting, with amendments,
4 Article - Tax - General
5 Section 8-213, 8-410, 10-205(b), and 10-704.3
6 Annotated Code of Maryland
7 (1997 Replacement Volume)

8 BY repealing and reenacting, with amendments,
9 Chapter 492 of the Acts of the General Assembly of 1995, as amended by
10 Chapter 10 of the Acts of the General Assembly of 1996
11 Section 3

12 BY repealing and reenacting, with amendments,
13 Chapter 379 of the Acts of the General Assembly of 1996, as amended by
14 Chapters 14 and 70 of the Acts of the General Assembly of 1997
15 Section 3

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
17 MARYLAND, That the Laws of Maryland read as follows:

18 **Article 88A - Department of Human Resources**

19 54.

20 (a) (1) In this section the following words have the meanings indicated.

21 (2) "Business entity" means:

22 (i) A person conducting or operating a trade or business in
23 Maryland; or

24 (ii) An organization operating in Maryland that is exempt from
25 taxation under § 501(c)(3) or (4) of the Internal Revenue Code.

26 (3) "Qualified child care expenses" means State regulated child care
27 expenses that are incurred by a business entity to enable a qualified employment
28 opportunity employee of the business to be gainfully employed.

29 (4) (i) "Qualified employment opportunity employee" means an
30 individual who is a resident of Maryland and who for three months before the
31 individual's employment with a business entity was a recipient of temporary cash
32 assistance from the State under the Aid to Families with Dependent Children
33 Program or the Family Investment Program and who for six months before the
34 individual's employment with a business entity was a Maryland resident.

1 (ii) "Qualified employment opportunity employee" does not include
2 an individual who is the spouse of, or has any of the relationships specified in § 152
3 (a)(1) through (8) of the Internal Revenue Code to, a person who controls, directly or
4 indirectly, more than 50% of the ownership of the business entity.

5 (5) "TRANSPORTATION EXPENSES" MEANS EXPENSES THAT ARE
6 INCURRED BY A BUSINESS ENTITY TO ENABLE A QUALIFIED EMPLOYMENT
7 OPPORTUNITY EMPLOYEE TO TRAVEL TO AND FROM WORK.

8 (6) "Wages" means wages, within the meaning of § 51(c)(1), (2), and (3) of
9 the Internal Revenue Code without regard to § 51(c)(4) of the Internal Revenue Code,
10 that are paid by a business entity to an employee for services performed in a trade or
11 business of the employer.

12 (b) (1) Except as provided in subsection (e) of this section, a business entity
13 may claim a tax credit in the amounts determined under subsections (c) and (d) of this
14 section for the wages and qualified child care OR TRANSPORTATION expenses with
15 respect to a qualified employment opportunity employee that are paid in the taxable
16 year for which the business entity claims the credit.

17 (2) The same tax credit cannot be applied more than once against
18 different taxes by the same taxpayer.

19 (c) (1) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS SUBSECTION,
20 [For] FOR each taxable year, for the wages paid to each qualified employment
21 opportunity employee, a credit is allowed in an amount equal to 40% OF UP TO THE
22 FIRST \$6,000 OF THE WAGES PAID TO THE QUALIFIED EMPLOYMENT OPPORTUNITY
23 EMPLOYEE DURING THE FIRST YEAR OF EMPLOYMENT [:

24 (1) 30% of up to the first \$6,000 of the wages paid to the qualified
25 employment opportunity employee during the first year of employment;

26 (2) 20% of up to the first \$6,000 of the wages paid to the qualified
27 employment opportunity employee during the second year of employment; and

28 (3) 10% of up to the first \$6,000 of the wages paid to the qualified
29 employment opportunity employee during the third year of employment].

30 (2) IF THE QUALIFIED EMPLOYMENT OPPORTUNITY EMPLOYEE HAS
31 BEEN A RECIPIENT OF TEMPORARY CASH ASSISTANCE FROM THE STATE UNDER THE
32 AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAM OR THE FAMILY
33 INVESTMENT PROGRAM FOR AT LEAST 18 MONTHS, WHETHER CONSECUTIVE OR NOT
34 CONSECUTIVE, AND HAS BEEN EMPLOYED FOR A FULL YEAR BY ~~THE EMPLOYER A~~
35 BUSINESS ENTITY CLAIMING THE CREDIT, THE CREDIT ALLOWED UNDER THIS
36 SECTION IS AN AMOUNT EQUAL TO 50% OF UP TO THE FIRST \$10,000 IN WAGES PAID
37 TO THE QUALIFIED EMPLOYMENT OPPORTUNITY EMPLOYEE DURING THE FIRST
38 YEAR OF EMPLOYMENT.

39 (d) For each taxable year, for child care provided or paid for by a business
40 entity for the children of a qualified employment opportunity employee of the

1 business entity OR FOR TRANSPORTATION EXPENSES, a credit is allowed in an
2 amount equal to:

3 (1) Up] UP to \$600 of the qualified child care OR TRANSPORTATION
4 expenses incurred for each qualified employment opportunity employee during the
5 first year of employment[;

6 (2) Up to \$500 of the qualified child care expenses incurred for each
7 qualified employment opportunity employee during the second year of employment;
8 and

9 (3) Up to \$400 of the qualified child care expenses incurred for each
10 qualified employment opportunity employee during the third year of employment].

11 (e) (1) A business entity may not claim the credit under this section for an
12 employee:

13 (i) Who is hired to replace a laid-off employee or to replace an
14 employee who is on strike; or

15 (ii) For whom the business entity simultaneously receives federal
16 or State employment training benefits.

17 (2) A business entity may not claim the credit under this section until it
18 has notified the appropriate government agency that the qualified employment
19 opportunity employee has been hired.

20 (3) A business entity may claim a credit in the amount provided in
21 paragraph (4) of this subsection for an employee whose employment lasts less than 1
22 year if the employee:

23 (i) Voluntarily terminates employment with the employer;

24 (ii) Is unable to continue employment due to death or a disability;
25 or

26 (iii) Is terminated for cause.

27 (4) (i) If a business entity is entitled to a tax credit UNDER
28 PARAGRAPH (C)(1) OF THIS SECTION for an employee who is employed for less than 1
29 year because the employee voluntarily terminates employment with the employer to
30 take another job, the business entity may claim a tax credit of [30%] 40% of up to the
31 first \$6,000 of the wages paid to the employee during the course of employment.

32 (ii) If a business entity is entitled to a tax credit UNDER
33 PARAGRAPH (C)(1) OF THIS SECTION for an employee who is employed for less than 1
34 year for a reason other than that described in subparagraph (i) of this paragraph, the
35 amount of the credit shall be reduced by the proportion of a year that the employee
36 did not work.

1 (f) If the credit allowed under this section in any taxable year exceeds the
 2 total tax otherwise payable by the business entity for that taxable year, a business
 3 entity may apply the excess as a credit for succeeding taxable years until the earlier
 4 of:

5 (1) The full amount of the excess is used; or

6 (2) The expiration of the fifth taxable year after the taxable year in
 7 which the wages or qualified child care expenses for which the credit is claimed are
 8 paid.

9 (g) If a credit is claimed under this section, the claimant must make the
 10 addition required in § 10-205 or § 10-306 of the Tax - General Article.

11 (h) The Comptroller in cooperation with the Department of Labor, Licensing,
 12 and Regulation and the Department of Human Resources shall administer the credit
 13 under this section.

14 (I) THE DEPARTMENT OF LABOR, LICENSING, AND REGULATION, THE
 15 DEPARTMENT OF HUMAN RESOURCES, AND THE COMPTROLLER SHALL REPORT TO
 16 THE GOVERNOR AND, SUBJECT TO § 2-1246 OF THE STATE GOVERNMENT ARTICLE, TO
 17 THE GENERAL ASSEMBLY BEFORE ~~NOVEMBER 15~~ JANUARY 15 OF EACH YEAR ON:

18 (1) MARKETING ACTIVITIES;

19 (2) THE COORDINATION OF INTERAGENCY ACTIVITIES;

20 (3) THE NUMBER OF BUSINESS ENTITIES WHO HIRED EMPLOYMENT
 21 OPPORTUNITY EMPLOYEES DURING THE PRECEDING YEAR;

22 (4) THE NUMBER OF EMPLOYMENT OPPORTUNITY EMPLOYEES;

23 (I) HIRED IN EACH BUSINESS SECTOR FOR THE PRECEDING YEAR;
 24 AND

25 (II) HIRED DURING THE PRECEDING YEAR AND EMPLOYED FOR
 26 LESS THAN 1 YEAR;

27 (5) A SUMMARY OF THE WAGES PAID TO EMPLOYMENT OPPORTUNITY
 28 EMPLOYEES FOR THE PRECEDING YEAR; AND

29 (6) THE NUMBER AND AMOUNT OF JOB CERTIFICATIONS ISSUED AND
 30 CREDITS CLAIMED DURING THE PRECEDING FISCAL YEAR.

31 **Article - Insurance**

32 6-105.1.

33 An insurer may claim a credit against the premium tax payable under this
 34 subtitle for wages paid to a qualified employment opportunity employee and for child

1 care provided or paid by the insurer for the children of a qualified employment
2 opportunity employee OR TRANSPORTATION EXPENSES as provided under Article
3 88A, § 54 of the Code.

4

Article - Tax - General

5 8-213.

6 A financial institution may claim a credit against the financial institution
7 franchise tax for wages paid to qualified employment opportunity employees and for
8 child care provided or paid by a business entity for the children of a qualified
9 employment opportunity employee OR TRANSPORTATION EXPENSES as provided
10 under Article 88A, § 54 of the Code.

11 8-410.

12 A public service company may claim a credit against the public service company
13 franchise tax for wages paid to qualified employment opportunity employees and for
14 child care provided or paid by a business entity for the children of a qualified
15 employment opportunity employee OR TRANSPORTATION EXPENSES as provided
16 under Article 88A, § 54 of the Code.

17 10-205.

18 (b) The addition under subsection (a) of this section includes the amount of a
19 credit claimed under:

20 (1) § 10-702 of this title for wages paid to an employee in an enterprise
21 zone;

22 (2) § 10-704.3 of this title or § 8-213 of this article for wages paid and
23 qualified child care OR TRANSPORTATION expenses incurred with respect to qualified
24 employment opportunity employees; or

25 (3) § 10-704.7 of this title or § 8-216 of this article for wages paid and
26 qualified child care or transportation expenses incurred with respect to a qualified
27 employee with a disability.

28 10-704.3.

29 (a) An individual or a corporation may claim a credit against the income tax
30 for wages paid to qualified employment opportunity employees and for child care
31 provided or paid for by a business entity for the children of a qualified employment
32 opportunity employee OR TRANSPORTATION EXPENSES as provided under Article
33 88A, § 54 of the Code.

34 (b) An organization that is exempt from taxation under § 501(c)(3) or (4) of the
35 Internal Revenue Code may apply the credit under this section as a credit against
36 income tax due on unrelated business taxable income as provided under §§ 10-304
37 and 10-812 of this title.

Chapter 492 of the Acts of 1995, as amended by Chapter 10 of the Acts of 1996

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 1995, and shall be applicable to all taxable years beginning after December 31, 1994 but before January 1, [2002] 2003; provided, however, that the tax credit under Article 88A, [§ 56] § 54 of the Code, as enacted under Section 1 of this Act, shall be allowed only for employees hired on or after June 1, 1995 but before July 1, [1998] 2001; and provided further that any excess credits under Article 88A, [§ 56] § 54 of the Code may be carried forward and, subject to the limitations under Article 88A, [§ 56] § 54 of the Code, may be applied as a credit for taxable years beginning on or after January 1, [2002] 2003. Except as otherwise provided in this Section, this Act shall remain in effect for a period of [3] 6 years and at the end of June 30, [1998] 2001, with no further action required by the General Assembly, this Act shall be abrogated and of no further force and effect.

Chapter 379 of the Acts of 1996, as amended by Chapters 14 and 70 of the Acts of 1997

SECTION 3. AND BE IT FURTHER ENACTED, That:

(a) this Act shall be applicable to all taxable years beginning after December 31, 1995, but before January 1, [2002] 2003;

(b) the tax credit under [Article 48A, § 633 of the Code and] § 6-105.1 of the Insurance Article shall be allowed only for employees hired on or after June 1, 1995, but before July 1, [1998] 2001; and

(c) any excess credits may be carried forward and, subject to the limitations of Article 88A, § 54 of the Code, may be applied as a credit for taxable years beginning on or after January 1, [2002] 2003.

SECTION 2. AND BE IT FURTHER ENACTED, That:

(a) The Department of Legislative Services shall conduct a study of the efficacy and effectiveness of the tax credit program established under this Act in increasing the employment and prospects for self-sufficiency of the target population, including an analysis of the profile of employers having taken advantage of these tax credits in hiring new employees, cost effectiveness of the subsidy in reaching State goals, and the appropriateness of the levels of the tax credits.

(b) In carrying out the study, the Department of Legislative Services shall receive information from, and consult with, the Department of Human Resources, the Department of Labor, Licensing, and Regulation, the Department of Assessments and Taxation, the Comptroller, and appropriate representatives of private employers, and shall review the data submitted under subsection 54(i) of Article 88A of the Code.

(c) The Department of Legislative Services shall complete and present the result of the study to the Senate Budget and Taxation Committee and the House Committee on Ways and Means by December 1, 2000.

1 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
2 June 1, 1998 and shall be applicable with respect to all employees hired after June 1,
3 1998.