SB 292

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 292 (Senator Currie, *et al.*)
Budget and Taxation

Work, Not Welfare Tax Incentive Act - Child Care or Transportation Expenses

This bill alters the Work, Not Welfare tax credit, extends the sunset date, requires an annual report on the tax credit, and requires a study by the Department of Legislative Services.

This bill is effective June 1, 1998.

Fiscal Summary

State Effect: Indeterminate effect on revenues and expenditures.

Local Effect: Indeterminate.

Small Business Effect: Meaningful.

Fiscal Analysis

Bill Summary: This bill repeals the Work, Not Welfare tax credit for the third year of employment. Further, if a qualified employment opportunity employee has been a recipient of temporary cash assistance from either the Aid to Families with Dependent Children program or the Family Investment Program for 18 of the last 48 months, the credit is equal to 40% of the first $10,000 in wages paid. The bill also provides a credit of up to $600 for expenses incurred by an employer to provide transportation for a qualified employee to and from work for the first year of employment.

The Department of Labor, Licensing and Regulation (DLLR), the Department of Human Resources (DHR), and the Office of the Comptroller are required to report to the Governor and the General Assembly annually by January 15. Among other items of interest, the report is to include information on interagency coordination, as well as the number of businesses hiring qualified employees, the number of employees hired, the number of job certifications issued, the certifications issued and credits claimed for individuals eligible for the 40% credit, the number and amount of child care and transportation credits claimed, and the number of eligible individuals employed, by length of employment.

The Department of Legislative Services, with the cooperation of DHR, DLLR, the Department of Assessments and Taxation, the Comptroller, and representatives of private employers, is to study the efficacy and effectiveness of the Work, Not Welfare tax credit program. The study is to be presented to the Senate Budget and Taxation Committee and the House Committee on Ways and Means by December 1, 2000.

The credits are allowed for employees hired through July 1, 2001, rather than July 1, 1998 as under current law. Changes to the program are only applicable to employees hired on or after June 1, 1998. The sunset date for this program is extended from June 30, 1998 to June 30, 2001.

Background: The current Work, Not Welfare tax credit is available to employers who hire qualified employment opportunity employees. A qualified employment opportunity employee is an individual who has been a Maryland resident for at least six months, and has received temporary cash assistance benefits for at least three consecutive months prior to being hired. The credit is for 30% of the first $6,000 of wages for the first year of employment ($1,800), 20% of the first $6,000 of wages for the second year of employment ($1,200), and 10% of the first $6,000 of wages for the third year of employment ($600). An additional credit is available for child care expenses incurred by the employer, for up to $600 in the first year, $500 in the second year, and $400 in the third year.

Between July 1995 and July 1997, 6,484 certifications have been issued by DLLR. A certification is issued for a qualified employee who has been hired. Through tax year 1996, however, only 199 credits have been claimed by 22 employers. About 89% of the credits have been claimed on corporate income tax returns.

State Effect: General and special fund revenues could increase since the bill repeals the credits for the third year of employment of qualified employees. For an employee who has received temporary cash assistance for 18 of the last 48 months, the credit is 40% of the first $10,000 of wages, or $4,000. Under current law, the credit for such employees is only $1,800, so the cost of each credit for these employees would increase by $2,200.

Additionally, the transportation credit could increase the cost of the credit by up to $600 for each qualified employee.

General fund expenditures could decline under the bill. If the $4,000 first-year employment credit creates an incentive to hire more qualified employment opportunity employees than would be hired under the current credit, welfare expenditures could decline. The average recipient of temporary cash assistance will receive $403 per month (for a family of three), or $4,836 annually. Half of this is paid by the federal government.

For these employees, the net effect could be a loss of up to $2,182 since the credit could be up to $4,600. If these individuals continue to work after the first year, however, the State would save up to $2,418 per employee.

If 200 credits continue to be claimed annually, the repeal of the third-year credits would result in savings of $120,000 annually. If the approximately 4,400 certifications issued in 1996 eventually result in credits, and this number of credits is claimed each year, the third-year savings would be $2.6 million.

The Department of Human Resources advises that general fund expenditures could increase by $33,900 for computer programming changes required to track those individuals who have received temporary cash assistance for 18 months or more. The Department of Legislative Services advises that welfare reform currently requires tracking the length of time benefits are received.

The Department of Labor, Licensing and Regulation advises that administration of this program has been funded with federal funds since its inception. Federal funding will no longer be available, particularly with the extension of the sunset. Accordingly, general fund expenditures could increase by an estimated $84,647 in fiscal 1999. This estimate reflects the cost of one Job Services Specialist III and one Administrator I to administer the Work, Not Welfare tax credit program. This amount also includes approximately $35,000 for promotional and informational brochures and posters to publicize the credit.

Any expenditures for the required studies can be absorbed within existing resources.

Local Effect: Local revenues would increase for those credits claimed against the individual income tax, because the amount of the State-only credit must be added to income. For each new $4,000 credit claimed, local revenues would increase approximately $109. Local revenues would decline slightly for those credits claimed against the corporate income tax, since a portion of corporate income tax revenues is distributed to the general fund.

Small Business Effect: Those small businesses hiring qualified employees could receive a credit $600 to $2,800 larger than the current credit. The credit reduces labor costs for qualified employees who have been receiving temporary cash assistance for at least 18 of the last 48 months by about 45%. Those small businesses who retain qualified employees beyond the second year, however, will not receive the third-year tax credits, effectively increasing labor costs for those employees.

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates); Department of Human Resources; Department of Labor, Licensing and Regulation; Department of Legislative Services

Fiscal Note History:	First Reader - February 22, 1998
lc	Revised - Senate Third Reader - March 31, 1998

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