

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1155 (Delegate Howard. *et al.*)

Ways and Means

Work, Not Welfare, and Qualifying Employees with Disabilities Tax Credits -Tax Exempt Organizations - Withholding Taxes

This bill allows tax exempt organizations to receive Work, Not Welfare and Qualifying Employees with Disabilities tax credits, and to apply the credits to the income tax the organization is required to withhold from wages of employees. If the full amount of the credit is not used in the year in which the credit is claimed, it can be carried forward for five years.

This bill is effective July 1, 1998, and credits may only be claimed against withholding taxes for employees hired on or after that date. The provisions concerning the Work, Not Welfare credit are contingent on the enactment of legislation extending the credit (SB 292/HB 565), which is currently set to sunset on June 30, 1998.

Fiscal Summary

State Effect: Indeterminate effect on revenues and expenditures. Administrative expenditures would increase by an estimated \$104,000 in FY 1999.

Local Effect: None.

Small Business Effect: Meaningful.

Fiscal Analysis

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.

The current credit for hiring qualified individuals with disabilities is 20% of the first \$6,000 of wages for each of the first two years of employment, with an additional credit of \$600 for transportation and child care expenses incurred by the employer in the first year of employment (\$500 in the second year).

Between July 1995 and July 1997, 6,484 certifications have been issued by the Department of Labor, Licensing and Regulation. 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.

The credit for hiring qualified disabled individuals has only been effective since October 1, 1997; no data regarding this credit are available.

State Effect: General fund revenues will decline to the extent that these credits are claimed by nonprofit organizations for hiring individuals they would have hired under current law. This figure cannot be reliably estimated. All credits will reduce general fund revenues because the credits are claimed against the individual income tax withholdings of employees.

Any benefit to the State in terms of increased tax revenues as well as lower State expenditures for social services resulting from extending these credits to nonprofit organizations cannot be reliably estimated at this time.

The Office of the Comptroller would incur one-time computer programming costs of \$104,000 to allow for a credit to be claimed on income tax withholdings.

The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized, since there will be changes to the income tax processing system due to the 1997 income tax reduction which is phased in through 2002.

Small Business Effect: Those small nonprofit businesses hiring employees qualified for Work, Not Welfare credits could receive a credit of up to \$2,400. This credit would reduce labor costs for a minimum wage employee by about 23%. Those small nonprofit businesses hiring employees qualified for the disabled employee credit could receive a credit of up to \$1,800. This credit would reduce labor costs for a minimum wage employee by about 17.5%.

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates),
Department of Legislative Services

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