**SB 674**

# Department of Legislative Services

Maryland General Assembly
2000 Session

## FISCAL NOTE
## Revised

Senate Bill 674 (Senator Currie, *et al.*)
Budget and Taxation

### Work, Not Welfare, and Qualifying Employees with Disabilities Tax Credits

This bill amends the Employment Opportunity Credit (Work, Not Welfare Tax Credit) first enacted in 1995.

The credits are allowed for employees hired through July 1, 2003, rather than July 1, 2001, as under current law. The sunset date for this program is extended from June 30, 2001, to June 30, 2003.

The bill takes effect July 1, 2000, provided that changes to the program are only applicable to employees hired on or after June 1, 2000.

## Fiscal Summary

**State Effect:** General fund revenue decrease of approximately $14,600 in FY 2001 and a Transportation Trust Fund (TTF) revenue decrease of approximately $1,500. Future year decreases reflect various effective hiring dates of the program and new percentages of wages that may be claimed for wages paid.

| (in dollars) | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 |
|---|---|---|---|---|---|
| GF Revenues | ($14,600) | ($79,400) | ($180,800) | ($132,100) | ($27,800) |
| SF Revenues | (1,500) | (7,900) | (18,100) | (13,200) | (2,800) |
| GF Expenditures | 0 | 0 | 0 | 0 | 0 |
| Net Effect | ($16,100) | ($87,300) | ($198,900) | ($145,300) | ($30,600) |

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect*

**Local Effect:** Local government revenue loss of approximately $626 in FY 2001; $3,400 in FY 2002; $7,700 in FY 2003; $5,700 in 2004; and $1,200 in FY 2005.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** Specifically, the bill alters the definition of a "qualified employment opportunity employee" by changing the requirement that the individual must have been a recipient of temporary cash assistance from the State from three months to any nine months during the 18-month period before the individual's employment.

The bill also transfers the responsibility for the determination of a "qualified employee with a disability" from the Division of Rehabilitative Services (DORS) of the Maryland State Department of Education (MSDE) to the Department of Labor, Licensing, and Regulation (DLLR) in consultation with MSDE.

Veterans that were discharged or released from active duty in the U.S. armed forces for a service-related disability are added to the definition of a qualified employee with a disability for the purposes of the credit for hiring a disabled individual. The percentage of the first $6,000 in wages paid to a disabled individual allowed as a credit increases from 20% to 30% for the first year.

DLLR and MSDE are required to jointly adopt regulations for the program. The administration of the credit and annual reporting requirements are also transferred to DLLR.

**Current Law:** The Employment Opportunity Credit (EOC) is a two-year Maryland State tax credit available to employers for wages paid and child care expenses incurred by employers for Maryland residents who are recipients of benefits through the Temporary Cash Assistance (TCA) program. The credit may be claimed for qualified employees in the amount of 30% of the first $6,000 in wages ($1,800) plus up to $600 for child care or transportation in the first year of employment and 20% of the first $6,000 in wages ($1,200) plus up to $500 for child care in the second year of employment.

Qualified individuals include individuals who have been residents of Maryland for the last six months; Maryland residents who have received TCA benefits for a minimum of three months immediately prior to employment; temporary, seasonal, part-time, and full-time employees qualify for this credit if they work for 12 months.
If an EOC eligible applicant has been a recipient of TCA for any 18 months during the last

48 months and is employed by a business entity for a full year, the amount of the credit is 40% of up to the first $10,000 in wages paid to the employee.

The employer may claim the tax credit for an unlimited number of employees and claim the tax credit along with the Federal Work Opportunity Tax Credit (WOTC) and the Federal Empowerment Zone credits if the employee is qualified.

The WOTC is a one-time federal tax credit available to employers who hire new employees from a qualified population of low-income groups, including workers with disabilities. The credit may be claimed on up to 40% of the first $6,000 in paid wages ($2,400 per employee) if the individual works a minimum of 180 days or 400 hours, and up to 25% of the first $6,000 in paid wages ($1,500 per employee) if the individual works a minimum of 120 hours but less than 400 hours. For qualified summer youth, the credit is 25% of the first $3,000 in first-year wages paid during the 90-day summer working period, allowing a maximum credit of $750.

Qualified individuals include temporary, seasonal, part-time, and full-time employees who fall under any of the following categories:

- recipients of TCA benefits
- veterans
- ex-felons
- high-risk youth
- vocational rehabilitation referral
- summer youth
- food stamp recipients
- Supplemental Security Income (SSI) recipients

The employer may claim an unlimited number of employees, claim the tax credit along with Maryland's EOC, the Disability Employment Tax Credit (MDETC), and Enterprise Zone tax credits if the employee is qualified.

**Background:** *Chapter 492 of 1995* complemented the General Assembly's welfare reform legislation by allowing a credit against the State income tax, the financial institution franchise tax, and the public service company franchise tax for wages paid by a business entity to a "qualified employment opportunity employee" and for child care expenses incurred by a business entity to enable a qualified employment opportunity employee to be gainfully employed.

As enacted by *Chapter 492*, the credit was allowed for an employee who is a resident of Maryland and who for six months before the employment commenced was a recipient of

benefits under the Aid to Families with Dependent Children program. The amount of the credit for wages was 30%, 20%, and 10%, respectively, of up to the first $6,000 of the wages paid to the employee during the first year, second year, and third year, respectively, of employment. The amount of the credit for child care expenses is up to $600, $500, and $400, respectively, of the qualified child care expenses for the first year, second year, and third year, respectively, of employment. The credit is limited to the total tax owed for the taxable year, but unused credit may be carried over for five taxable years.

The credit is not allowed for an employee who is hired to replace a laid-off or striking employee, for an employee for whom the business simultaneously receives federal or State employment training benefits, or for an employee whose employment lasts for less than one year. If an employee's employment lasts less than one year because the employee voluntarily terminates employment, is terminated for cause, or is unable to continue employment due to death or disability, a pro-rata credit is allowed. As enacted under *Chapter 492 of 1995*, the credit was allowed only for employees hired on or after June 1, 1995, but before June 30, 1998. The provisions relating to the credit expire after three years except to the extent the unused credit may be carried forward.

Following up on the 1995 legislation, the 1996 General Assembly enacted legislation expanding the availability of the credit. *Chapter 626 of 1996* made the credit available to nonprofit tax-exempt organizations that have unrelated business income subject to the income tax. *Chapter 379 of 1996* extended eligibility for the employment opportunity credit to insurance companies subject to the insurance premiums tax. *Chapter 379* also broadened the class of employees for whom a business is eligible for the credit, reducing from six to three the number of months prior to the employment for which an individual must have been a welfare recipient to qualify as an employee for whom the credit is allowed. The Act also provided that if an employee's employment lasts less than one year because the employee voluntarily terminates employment, the credit is not required to be prorated if the employee left to take another job.

The Work, Not Welfare Tax Credit law was originally enacted in 1995 with a three-year termination provision. *Chapters 598 and 599 of 1998* modified the tax credit and extended the termination date for the program for three additional years, so that the program applies to employees hired before July 1, 2001.

Under *Chapters 598 and 599*, the Work, Not Welfare Tax Credit is limited to the first two years of employment (three years under former law). The Acts added an enhanced credit for employment of individuals who have been on welfare for 18 of the last 48 months, equal to 40% of up to the first $10,000 in wages paid. In addition, the Acts added transportation expenses incurred on the employee's behalf as an eligible expense for which an employer is allowed a credit. The Acts also added several reporting requirements to enhance the

program's accountability.

The EOC program for recipients of TCA is administered by DLLR, in consultation with MSDE. DLLR also administers the federal WOTC. MSDE is responsible for certifying individuals with disabilities as qualified employees with disabilities for the purposes of the EOC tax credit.

DLLR reports that it has never received State funding to administer the State EOC program since the program was first enacted in 1995.

**State Fiscal Effect:** According to the Bureau of Revenue Estimates, for tax year 1998, 34 credits were claimed for qualified employees totaling $114,959. An additional 12 credits totaling $13,350 were claimed for employees with disabilities. Since the credit cannot exceed State tax liability, only $69,344 was actually used to offset the State tax liability for 1998. Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments.

As a result, general fund revenue will decrease by approximately $14,602 in fiscal 2001 and TTF revenue will decrease by approximately $1,460 in fiscal 2001. Future year decreases reflect the various effective hiring dates of the program and new percentages of wages that may be claimed for wages paid. As a result, the largest revenue decrease will occur in fiscal 2003.

The above estimate is based on the following facts and assumptions:

- the data for tax year 1998 represents only one-half of the credits that will ultimately be claimed;
- the number of credits claimed will remain relatively constant; and
- one-half of the credits claimed will be claimed on personal income tax returns and one-half will be claimed on corporate income tax returns.

Currently, no credits have been claimed for child care or transportation costs. Also, there is no data available on which to base an estimate on the number of veterans who will be hired and therefore qualify for the credit. To the extent that credits are claimed for these expenditures and for hired veterans, general and special fund revenue would decline accordingly.

Currently, DLLR and MSDE are responsible for administering the two components of the State EOC program. DLLR administers the credit for TCA recipients and MSDE administers the credit for employees with disabilities. The bill conforms the requirements of the State credit to those of the federal credit discussed above. One provision of the bill requires DLLR in consultation with MSDE to determine employees with disabilities. The agencies are required to jointly adopt regulations and DLLR is required to administer the credit. Because DLLR administers the federal credit, it is required to certify qualified employees with disabilities. As a result, the bill's requirements have only a minimal impact on DLLR's workload and can be handled with existing resources.

The bill's requirements would not affect overall program expenditures for DORS.

**Local Fiscal Effect:** Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions. For fiscal 2001, this would result in a loss of approximately $626.

**Small Business Effect:** Those small businesses hiring qualified employees could receive credits for hiring qualified individuals in addition to those already hired due to the extended termination date and the credit provided for hiring disabled veterans.

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## Additional Information

**Prior Introductions:** See Background.

**Cross File:** HB 1015 (Delegate Shriver, *et al.*) - Ways and Means.

**Information Source(s):** Comptroller of the Treasury (Bureau of Revenue Estimates); Department of Labor, Licensing, and Regulation; Department of Human Resources; Maryland State Department of Education, Department of Legislative Services

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