HB 830

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 830 (Delegate Marriott, *et al.*)
Ways and Means

Income Tax - Credit for Employment of Ex-Felons

This bill creates a credit against the State income tax for a "business entity" for wages paid to a "qualified ex-felon employee."

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2000 and ending before January 1, 2006, with respect to individuals hired on or after June 1, 2001 and before July 1, 2003. The bill sunsets June 30, 2003.

Fiscal Summary

State Effect: The revenue decrease resulting from the bill cannot be reliably estimated. However, total general fund and Transportation Trust Fund (TTF) revenues would decrease by $1,800 for every credit taken for a hired ex-felon who works for one year and by $3,000 for every ex-felon hired who works at least two years. No effect on expenditures.

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. Seventy-five percent of corporate tax revenues is distributed to the general fund and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Potential meaningful. Small businesses that hire ex-felons as employees could realize reduced income tax liabilities.

Analysis

Bill Summary: A business entity may claim a tax credit for wages paid to a qualified ex-felon employee. For each taxable year, a credit is allowed in an amount equal to: (1) 30% of up to the first $6,000 of the wages paid to the qualified ex-felon employee during the first year of employment; and (2) 20% of up to the first $6,000 of the wages paid to the qualified ex-felon employee during the second year of employment. A tax exempt organization may apply the credit as a credit against income tax due on unrelated business taxable income or for the payment to the Comptroller of taxes that the organization is required to withhold from the wages of employees and is required to pay to the Comptroller.

A business entity may not claim the credit under this section until it has notified the Department of Public Safety and Correctional Services that a qualified ex-felon employee has been hired. A business entity may not claim the credit if the business entity is claiming a tax credit for the same employee under the Employment Opportunity Tax Credit or the Work, Not Welfare and Qualifying Employees with Disabilities Tax Credit.

If a business entity is entitled to a tax credit for an employee who is employed for less than one year because the employee voluntarily terminates employment with the employer to take another job, the business entity may claim a tax credit of 30% of up to the first $6,000 of the wages paid to the employee during the course of employment. If a business entity is entitled to a tax credit for an employee who is employed for less than one year, the amount of the credit shall be reduced by the proportion of a year that the employee did not work.

Any excess credit may be carried forward for up to five taxable years. Any person claiming the credit is required to make an addition modification in the amount of the credit claimed. The Department of Public Safety and Correctional Services and the Comptroller are required to adopt regulations to carry out the provisions of the bill.

The bill also requires the Department of Legislative Services, based on information provided by and in consultation with the Department of Public Safety and Correctional Services and the Comptroller, to conduct a study of the efficacy and effectiveness of the tax credit program and report the results of the study to the Senate Budget and Taxation Committee and the House Ways and Means Committee by December 1, 2002.

Current Law: No tax credit of this type exists.

State Fiscal Effect: The cost of the bill cannot be reliably estimated and depends on the actual number of ex-felons hired and their length of employment as well as actual wages paid. However, assuming that annual wages are at least $6,000, total general fund and TTF revenues would decrease by $1,800 for every credit taken for a hired ex-felon who works for one year and by $3,000 for every ex-felon hired who works at least two years ($1,800 in the first year and $1,200 in the second year).

Credits taken on personal income tax returns would reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues is distributed to the general fund and 25% is 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. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

As a point of reference, the Department of Public Safety and Correctional Services advises that there were between 50,000 and 75,000 newly released ex-felons in calendar 1999 and 2000. It is estimated that 10% of these individuals could become employed for more than one year.

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 is distributed to the general fund and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: SB 809 (Senator McFadden, *et al*.) – Budget and Taxation.

Information Source(s): Department of Public Safety and Correctional Services, Department of Legislative Services

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