SB 809

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 809 (Senator McFadden, *et al.*)
Budget and Taxation Ways and Means

Pilot Program for Long-Term Employment of Qualified Ex-Felons

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This bill creates a two-year Pilot Program for the Long-Term Employment of Qualified Ex-Felons to be administered by the Department of Public Safety and Correctional Services.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2001 and ending before January 1, 2006, with respect to individuals hired on or after January 1, 2002 and before December 31, 2003. The bill sunsets December 31, 2003.

Fiscal Summary

State Effect: Total general fund and Transportation Trust Fund (TTF) revenue decrease of approximately $360,000 in FY 2003, $600,000 in FY 2004, and $240,000 in FY 2005. General fund expenditure increase of approximately $103,400 in FY 2003 and $96,300 in FY 2004 for contractual employees and the purchase of fidelity bonds.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF/SF Rev.	$0	($360,000)	($600,000)	($240,000)	$0
GF Expenditure	0	103,400	96,300	0	0
Net Effect	$0	($463,400)	($696,300)	($240,000)	$0

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

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 are distributed to the general fund and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% are 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: The bill requires the Department of Public Safety and Correctional Services to establish and administer the pilot program in consultation with the Governor's Workforce Investment Board. The pilot program is intended to provide incentives for the hiring of up to 200 qualified ex-felons each year through existing one-stop employment and training centers in at least two of the State's Workforce Investment Areas. The one-stop centers will work with community organizations and any State or local government entities that provide services to ex-felons and will also provide outreach and education to employers about the program.

A business entity that hires a qualified ex-felon through the pilot program will be able to obtain a one-year $5,000 federal fidelity bond for the qualified ex-felon for the first year of employment. The department is required to purchase federal fidelity bonds and to provide the bonds to the designated one-stop centers for up to 200 qualified ex-offender participants each year.

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 simultaneously receiving federal or State employment training benefits for the same employee.

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 in consultation with the Governor's Workforce Investment Board and the Comptroller are required to adopt regulations to carry out the provisions of the bill.

Current Law: No tax credit of this type exists.

State Fiscal Effect: Total general fund and TTF revenues would decrease by approximately $360,000 in fiscal 2003 assuming 200 qualified ex-felons participate in the pilot program and that annual wages are at least $6,000. Revenues decrease by $1,800 for every credit taken for a hired ex-felon in the first year of the program and by $3,000 for every ex-felon hired who works both years of the program ($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.

The Department of Public Safety and Correctional Services advises that its general fund expenditures could increase by an estimated $143,000 in fiscal 2003 and $138,400 in fiscal 2004, which accounts for the bill's July 1, 2002 effective date and December 31, 2003 sunset date. This estimate reflects the cost of hiring one full-time permanent case worker and two contractual employees -- one executive administrator and one administrative aide -- to administer and coordinate the pilot program, including identifying qualified ex-felons and purchasing and issuing fidelity bonds. It includes salaries, one-time start-up costs, and operating expenses.

However, the Department of Legislative Services advises that because this is a two-year pilot program, two contractual employees -- one administrative officer II and one administrative aide -- could handle the requirements of the bill. As a result, general fund expenditures could increase by an estimated $69,800 in fiscal 2003 and $62,700 in fiscal 2004. The estimate includes salaries, one-time start-up costs, and operating expenses.

Also, general fund expenditures are estimated to increase by approximately $33,600 in each of fiscal 2003 and fiscal 2004 due to the purchase of 200 fidelity bonds for each qualified ex-felon participating in the program. It is estimated that a $5,000 fidelity bond costs $168.

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% are distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: HB 830 (Delegate Marriott, *et al.*) – Ways and Means.

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

Fiscal Note History: First Reader – February 27, 2001
jm/cer Revised – Senate Third Reader – April 2, 2001

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