

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 81 (Delegate Morhaim, *et al.*) Economic Matters

Unemployment Insurance - Exemption from Covered Employment - Travel Agents

This bill exempts travel agents who work solely for commission from covered employment for unemployment insurance purposes.

The bill is retroactive and applies to all determinations by the Department of Labor, Licensing, and Regulation (DLLR) pertaining to: (1) rates of contributions for employing units beginning on or after January 1, 2002; and (2) benefit charges for unemployment insurance claims for work performed by travel agents on or after January 1, 2002.

Wages that are paid for work performed by a travel agent through September 30, 2005 may be used in determining monetary eligibility for unemployment insurance benefits.

Fiscal Summary

State Effect: This bill would not directly affect State operations or finances.

Unemployment Insurance Trust Fund (UITF): FY 2006 revenues will decrease by \$700,000 due to retroactive application. In future years, revenues will decrease by \$130,000 annually as unemployment insurance taxes are not assessed for certain payments to travel agents, and expenditures will decrease by \$100,000 annually for decreased unemployment insurance benefits to travel agents.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
NonBud Rev.	(\$700,000)	(\$130,000)	(\$130,000)	(\$130,000)	(\$130,000)
NonBud Exp.	0	(100,000)	(100,000)	(100,000)	(100,000)
Net Effect	(\$700,000)	(\$30,000)	(\$30,000)	(\$30,000)	(\$30,000)

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

Local Effect: None.

Small Business Effect: Minimal decrease in unemployment insurance expense.

Analysis

Current Law: Travel agents are considered covered employees for unemployment insurance purposes. Covered employment is defined as work performed by an individual for an employing unit.

A multitude of exemptions to covered employment exist under current law. Other services performed solely for commission which are exempt include yacht salespersons, insurance brokers, and messenger service drivers. To the extent that work is exempt under federal law, a real estate broker or real estate salesperson working for a licensed real estate broker for commission is also not covered employment.

Background: When an individual performs service for a business in return for compensation in the form of wages, the individual is likely covered for unemployment insurance purposes. The employer reports the wages to the Division of Unemployment Insurance and pays unemployment insurance taxes on those wages. If a person is not in covered employment, the person's wages are not reported and the employer does not pay unemployment insurance taxes for those services.

Most exemptions from covered employment under Maryland law mirror Federal Unemployment Tax Act (FUTA) exemptions. However, Maryland does have two exemptions not included in FUTA: yacht salespersons and messenger service drivers.

Unemployment Insurance Trust Fund:

Trust Fund Revenue

It is estimated that one-third of the travel agent employees currently reported to the Division of Unemployment Insurance are for agents that perform services solely for commission. If exempt, about 780 workers would be eliminated from unemployment insurance coverage. With an average unemployment insurance tax rate of 2.7%, the loss of unemployment insurance contributions to the UITF would be approximately \$220,000 during years with a surcharge and \$130,000 in other years. A surcharge is expected to be assessed in fiscal 2006.

Because the bill is to be applied retroactively beginning in calendar 2002, fiscal 2006 UITF expenditures would include repayments of prior taxes collected relative to travel

agents. That amount is estimated to be approximately \$700,000 (two years at a surcharge and two years without a surcharge).

Unemployment Benefit Payments

Payment of unemployment benefits would decrease as certain travel agents would no longer be covered for unemployment insurance. It is estimated that benefit payments would decrease by approximately \$100,000 annually beginning in fiscal 2007. The bill allows travel agents to have wages through September 30, 2005 used in determining monetary eligibility for unemployment insurance benefits.

Additional Information

Prior Introductions: None.

Cross File: SB 28 (Senator Brochin, *et al.*) – Finance.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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ncs/jr

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