

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 1033

(Senator Currie)

Budget and Taxation

Ways and Means

Tax Credits for Individuals Facing Employment Barriers - Sunset Extension

This bill extends the termination dates of the State Employment Opportunity Credit (Work, Not Welfare Tax Credit) and Qualifying Employees with Disabilities Tax Credit to June 30, 2008.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General fund revenues could decrease by \$365,600 in FY 2008 due to extension of the tax credits. Transportation Trust Fund (TTF) revenues could decrease by \$70,000 in FY 2008 due to extension of these credits. Future years reflect estimated amount of number of eligible taxpayers claiming the credit and tax credits carried forward from previous tax years. Expenditures would not be affected.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$365,600)	(\$516,900)	(\$131,700)	\$0	\$0
SF Revenue	(70,000)	(99,000)	(25,200)	0	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$435,600)	(\$615,900)	(\$156,900)	\$0	\$0

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

Local Effect: Local highway user revenues would decrease by approximately \$21,000 in FY 2008, \$29,700 in FY 2009, and by \$7,600 in FY 2010. Expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: The State Employment Opportunity Tax Credit (Work, Not Welfare Tax Credit) and Qualifying Employees with Disabilities Tax Credit programs terminate June 30, 2007.

Background: The State Employment Opportunity Credit (Work, Not Welfare Tax Credit) allows employers who hire an individual who is a recent recipient of temporary cash assistance from the State to claim a tax credit for certain wages paid to the employee and for child care and transportation expenses paid on behalf of the employee in the first two years of employment. Employers can claim a credit equal to 30% of the first \$6,000 of the wages paid to the employee (20% in year two). If the employee was a recipient of temporary cash assistance from the State for at least 18 of the last 48 months, the credit is equal to 40% of the first \$10,000 in wages paid if the employee was employed for at least one full year. Employers can claim a credit of up to \$600 of child care or transportation expenses paid on behalf of qualifying employees in the first year of employment (\$500 in year two). The amount of the credit may not exceed the tax liability in the year, and any unused amount may not be carried forward to any other tax year. The credit can be claimed with regard to individuals hired on or after June 1, 1995 through June 30, 2007. The program terminates June 30, 2007.

The Qualifying Employees with Disabilities Tax Credit also allows employers who hire a qualified individual with disabilities to claim a tax credit for certain wages paid to the employee and for child care and transportation expenses paid on behalf of the employee in the first two years of employment. A qualified individual with a disability is a person who • meets the definition of an individual with a disability as defined by the Americans with Disabilities Act; • has a disability that presently constitutes an impediment to obtaining or maintaining employment or to transitioning from school to work; • is ready for employment; and • has been determined as having met the criteria of a qualified employee with a disability. The credit is calculated in the same manner as the State Employment Opportunity Credit, except that the credit for wages paid in the first year of employment is equal to 20% of the first \$6,000 in wages if the employee was hired before July 1, 2000. The amount of the credit may not exceed the tax liability in the year, and any unused amount may not be carried forward to any other tax year. The credit can be claimed on behalf of individuals hired on or before October 1, 1997 through June 30, 2007. The program terminates June 30, 2007. Employers who claim either credit are required to add back to federal adjusted gross income the amount of credits claimed.

Exhibit 1 lists the amount of credits claimed in tax year 1999 through 2004 for the State Employment Opportunity and Qualifying Employees with Disabilities tax credits.

**Exhibit 1
Credits Claimed
Tax Year 1999-2004**

<u>Tax Year</u>	<u>Employment Opportunity</u>	<u>Qualified Employees with Disabilities</u>
1999	\$510,960	\$59,516
2000	541,108	54,263
2001	418,401	23,303
2002	524,330	21,701
2003	776,823	183,593
2004	440,421	381,351

State Revenues: The bill extends the State Employment Opportunity and Qualifying Employees with Disabilities Tax Credits for individuals hired through June 30, 2008. Credits could be claimed for individuals hired through June 30, 2008, an extension of one year (one-half of tax year 2007 and one-half of tax year 2008). As a result, general fund revenues would decrease by \$365,600 in fiscal 2008. TTF revenues would decrease by \$70,000 in fiscal 2008.

This estimate is based on the following facts and assumptions:

- Based on the existing history of the credits, it is estimated that a total of \$1.2 million would be claimed in tax year 2007 and \$1.3 million would be claimed in tax year 2008 if available for all of tax year 2007 and 2008.
 - The bill applies to one-half of tax year 2007 and one-half of tax year 2008.
 - The add back provision of the credit reduces revenue losses by \$39,900 in tax year 2007 and \$43,200 in tax year 2008.
 - Three-quarters of credits earned in a tax year are claimed in the same fiscal year while the remaining are claimed in the next fiscal year.
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Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 26, 2007
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