

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 280

(Chair, Ways and Means Committee)
 (By Request – Departmental – Education)

Ways and Means

Budget and Taxation

Tax Credits for Qualifying Employees with Disabilities - Sunset Extension

This departmental bill extends the termination date of the Qualifying Employees with Disabilities Tax Credit to June 30, 2009.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund revenues could decrease by \$154,300 in FY 2009 due to extension of the tax credit. Transportation Trust Fund (TTF) revenues could decrease by \$36,600 in FY 2009 and Higher Education Investment Fund (HEIF) revenues could decrease by \$10,800. Future year revenues reflect estimated number of eligible taxpayers claiming the credit, extension of the credit as specified by the bill, and tax credits carried forward from previous tax years. Expenditures would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$154,300)	(\$249,000)	(\$97,400)	\$0	\$0
SF Revenue	(47,400)	(76,500)	(30,000)	0	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$201,700)	(\$325,500)	(\$127,400)	\$0	\$0

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

Local Effect: Local highway user revenues would decrease by the following amounts: \$11,000 in FY 2009, \$17,700 in FY 2010, and \$6,900 in FY 2011. Expenditures would not be affected.

Small Business Effect: A small business impact statement was not provided by the Maryland State Department of Education in time for inclusion in this fiscal note. A revised fiscal note will be issued when the department's assessment becomes available.

Analysis

Current Law: The Qualifying Employees with Disabilities Tax Credit program terminates June 30, 2008.

Businesses can also qualify for federal tax credits under the Work Opportunity Tax Credit as discussed below.

Background: The Qualifying Employees with Disabilities Tax Credit 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, 2008. The program terminates June 30, 2008. 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 Qualifying Employees with Disabilities tax credits claimed in tax year 1999 through 2004.

Exhibit 1
Employees with Disabilities Credits Claimed
Tax Year 1999-2004

<u>Tax Year</u>	<u>Returns</u>	<u>Credits Claimed</u>	<u>Average</u>
1999	30	\$59,516	\$1,984
2000	47	65,063	1,384
2001	26	23,303	896
2002	23	21,701	944
2003	15	185,664	12,378
2004	18	507,740	28,208

The federal Work Opportunity Tax Credit (WOTC), which was first authorized by the Small Business Job Protection Act of 1996, is designed to provide incentive to employers to hire members of families receiving benefits under Temporary Assistance to Needy Families (TANF) and other groups thought to experience employment difficulties. These groups include high-risk youths, ex-felons, residents of certain economically depressed areas, certain Supplemental Security Income recipients, and qualified veterans. The Small Business and Work Opportunity Tax Act of 2007 extended WOTC through August 31, 2011. Generally, employers claim the credit for a percentage of the first \$6,000 in wages paid for qualified employees. The federal Joint Committee on Taxation estimates that a total of about \$600 million in federal credits will be claimed annually through federal fiscal 2011.

State Revenues: The bill extends the Qualified Employees with Disabilities Tax Credits for individuals hired through June 30, 2009, an extension of one year (one-half of tax year 2008 and one-half of tax year 2009). As a result, general fund revenues would decrease by \$154,300 in fiscal 2009. TTF revenues would decrease by \$36,600 in fiscal 2009, and HEIF revenues would decrease by \$10,800.

This estimate is based on the history of the existing credit program through tax year 2004 and the following facts and assumptions:

- The bill applies to one-half of tax year 2008 and one-half of tax year 2009.
- The add back provision of the credit reduces revenue losses by about 8% of the total amount claimed in each tax year.
- 90% of credits are claimed against the corporate income tax.

- 60% of credits earned in a tax year are claimed within the same fiscal year while the remaining are claimed in the next fiscal year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland State Department of Education,
Department of Legislative Services

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