# Department of Legislative Services
Maryland General Assembly
2008 Session

## FISCAL AND POLICY NOTE
**Revised**

Senate Bill 314 (Senators Currie and Kasemeyer)
Budget and Taxation Ways and Means

### State Employment Opportunity Credit - Sunset Extension

This bill extends the termination date of the State Employment Opportunity Credit (Work, Not Welfare 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 credits 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) | ($265,200) | ($108,200) | $0 | $0 |
| SF Revenue | (47,400) | (81,500) | (33,300) | 0 | 0 |
| Expenditure | $0 | $0 | $0 | $0 | $0 |
| Net Effect | ($201,700) | ($346,700) | ($141,500) | $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, $18,900 in FY 2010, and $7,700 in FY 2011. Expenditures would not be affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** The State Employment Opportunity Tax Credit (Work, Not Welfare 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 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, 2008. The program terminates June 30, 2008. **Exhibit 1** lists the amount of State Employment Opportunity tax credits claimed in tax year 1999 through 2004.

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

| Tax Year | Returns | Credits Claimed | Average |
|---|---|---|---|
| 1999 | 64 | $510,960 | $7,984 |
| 2000 | 91 | 541,108 | 5,946 |
| 2001 | 60 | 338,564 | 5,643 |
| 2002 | 60 | 527,729 | 8,795 |
| 2003 | 78 | 800,330 | 10,261 |
| 2004 | 57 | 737,640 | 12,941 |

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 the 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 State Employment Opportunity Tax Credit 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 tax 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 Employment Opportunity 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; Congressional Research Service; Department of Labor, Licensing, and Regulation; Joint Committee on Taxation; Department of Legislative Services

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