**SB 604**

# Department of Legislative Services

Maryland General Assembly
2009 Session

## FISCAL AND POLICY NOTE
## Revised

Senate Bill 604 (Senator Currie)

Budget and Taxation Ways and Means

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**Tax Credits for Qualifying Employees with Disabilities - Sunset Extension**

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This bill extends the termination date of the Qualifying Employees with Disabilities Tax Credit to June 30, 2010.

The bill takes effect June 1, 2009.

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## Fiscal Summary

**State Effect:** General fund revenues decrease by $38,700 in FY 2010 due to extension of the tax credit. Transportation Trust Fund (TTF) revenues decrease by $8,700 in FY 2010. Future year revenues reflect estimated number of eligible taxpayers claiming the credit, extension of the credit, and the current economic forecast. Expenditures are not affected.

| (in dollars) | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| GF Revenue | ($38,700) | ($68,000) | ($28,100) | $0 | $0 |
| SF Revenue | ($8,700) | ($15,200) | ($6,300) | $0 | $0 |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | ($47,400) | ($83,200) | ($34,400) | $0 | $0 |

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

**Local Effect:** Local highway user revenues decrease by $2,600 in FY 2010, $4,600 in FY 2011, and by $1,900 in FY 2012. Expenditures are not affected.

**Small Business Effect:** Minimal.

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# Analysis

**Current Law:** The Qualifying Employees with Disabilities Tax Credit program terminates June 30, 2009. 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 (1) meets the definition of an individual with a disability as defined by the Americans with Disabilities Act; (2) has a disability that presently constitutes an impediment to obtaining or maintaining employment or to transitioning from school to work; (3) is ready for employment; and (4) has been determined as having met the criteria of a qualified employee with a disability. A qualified individual also includes an individual who (1) has been discharged or released from active duty in the armed forces of the United States for a service-connected disability; and (2) other individuals meeting the four requirements described above, whether or not the individual receives services from the Department of Labor, Licensing, and Regulation (DLLR).

Employers can claim a credit equal to 30% of the first $6,000 of the wages paid to the employee (20% in year two). 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 be carried forward five tax years. The credit can be claimed with regard to individuals hired on or after June 1, 1995 through June 30, 2009. The program terminates June 30, 2009. **Exhibit 1** lists the amount of Qualifying Employees with Disabilities tax credits claimed in tax year 1999 through 2006.

According to DLLR, the number of individuals certified as eligible under the credit totaled 386 in 2004, 409 in 2005, and 236 in 2006. Seventy-seven percent of individuals were employed in the services industry and 23% were employment in sales. Almost all jobs had an average hourly wage of between $5.15 and $7.25 per hour.

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 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 including veterans with a service-connected disability. 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.

**Exhibit 1**
**Employees with Disabilities Credits Claimed**
**Tax Year 1999-2006**

| Tax Year | Returns | Credits Claimed | Average |
|---|---|---|---|
| 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 | 501,205 | 27,845 |
| 2005 | n/a | 152,929 | n/a |
| 2006 | n/a | 61,542 | n/a |

**State Revenues:** The bill extends the termination date of the Qualified Employees with Disabilities Tax Credits for individuals hired through June 30, 2010. As a result, general fund revenues will decrease by $38,700 in fiscal 2010. TTF revenues will decrease by $8,700 in fiscal 2010.

This estimate is based on the history of the existing credit program through tax year 2006 and the following facts and assumptions:

- The bill applies to one-half of calendar 2009 and one-half of calendar 2010.
- The add-back provision of the credit reduces revenue losses by about 8% of the total amount claimed in each tax year.
- About 90% of credits have claimed against the corporate income tax in tax year 2000 through 2006.
- An estimated 60% of credits claimed in a tax year are for individuals hired in the first year of employment.

**Local Revenues**: Local highway user revenues will decrease as a result of credits claimed against the corporate income tax. Local highway user revenues will decrease by $2,600 in fiscal 2010, $4,600 in fiscal 2011, and by $1,900 in fiscal 2012.

## Additional Information

**Prior Introductions**: None.

**Cross File**: None.

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

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