SB 221

Department of Legislative Services

Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 221 (Senator Currie)

Budget and Taxation Ways and Means

Tax Credits for Qualifying Employees with Disabilities - Sunset Extension

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This bill extends to June 30, 2011, the termination date of the Qualifying Employees with Disabilities Tax Credit.

The bill takes effect June 1, 2010.

Fiscal Summary

State Effect: General fund revenues decrease by $55,100 in FY 2011 due to extension of the tax credit. Transportation Trust Fund (TTF) revenues decrease by $12,700 in FY 2011. Future year revenues reflect estimated number of eligible taxpayers claiming the credit, extension of the credit, and the current economic forecast. Expenditure are not affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	($55,100)	($76,300)	($22,900)	$0	$0
SF Revenue	($12,700)	($17,600)	($5,300)	$0	$0
Expenditure	0	0	0	0	0
Net Effect	($67,800)	($93,900)	($28,200)	$0	$0

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

Local Effect: Local highway user revenues decrease by $3,800 in FY 2011, $5,300 in FY 2012, and by $1,600 in FY 2013. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The Qualifying Employees with Disabilities Tax Credit program terminates June 30, 2010. 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, 2010. The program terminates June 30, 2010. **Exhibit 1** lists the amount of Qualifying Employees with Disabilities tax credits claimed in tax year 1999 through 2006. Variable labor market conditions and the business cycle are likely contributors to the volatility of the amount of employment tax credits claimed in each year.

The program is administered by the Division of Rehabilitation Services within DLLR. DLLR certified as being eligible for the program a total of 386 individuals in 2004, 409 in 2005, 236 in 2006, and 197 in 2007. About four-fifths of individuals were employed in the services industry with the remaining individuals employed in sales. Virtually all jobs had an average hourly wage of between $6.15 and $7.55 per hour.

The federal Work Opportunity Tax Credit, which was first authorized by the Small Business Job Protection Act of 1996, is designed to provide incentive to employers to hire groups of individuals thought to face significant employment barriers. The program has been modified over time, most recently by the federal American Recovery and

Reinvestment Act of 2009, which provides a consolidated credit program for employment of 12 target groups, including veterans with service-connected disabilities and Supplemental Security Income recipients. The credit may be claimed for qualifying individuals hired after December 31, 2006 but before September 1, 2011. The value of the maximum value of the credit ranges from $2,400 for each new adult hire to $9,000 for each new long-term family assistance recipient hired over a two-year period. In federal fiscal 2008, a total of 691,421 individuals were certified under the program nationwide.

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	19	405,074	21,320
2005	27	374,871	13,884
2006	20	62,742	3,137

The employment rate of individuals with disabilities typically depends on the type and severity of the disability as well as other factors such as access to transportation. In 2007, about 386,400 Maryland civilians aged 16 to 64 had a disability and were living in the community, about 11% of the total civilian population of this age. The employment rate of this group was 42%, slightly higher than the corresponding national rate (36%) but significantly lower than the rate for the corresponding State population without disabilities (78%). Median earnings for Marylanders with disabilities were about 70% the amount earned by individuals without disabilities while State poverty rates were significantly higher among individuals with disabilities (20% compared with 6%).

State Revenues: The bill extends the termination date of the Qualifying Employees with Disabilities Tax Credits for individuals hired through June 30, 2011. As a result, general fund revenues will decrease by $55,100 in fiscal 2011, while TTF revenues will decrease by $12,700.

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 2010 and one-half of calendar 2011.
- 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 been 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.
- The amount claimed in each year is adjusted based on the forecasted amount of total job creations in Maryland and the expected State unemployment rate.

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 $3,800 in fiscal 2011, $5,300 in fiscal 2012, and by $1,600 in fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Economy.com; National Institute on Disability and Rehabilitation Research; U.S. Census Bureau; U.S. Department of Labor; Department of Legislative Services

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