Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 468 (Senator Currie)
Budget and Taxation

Maryland Employment Opportunity Tax Credit

This bill permanently re-establishes the State Employment Opportunity Tax Credit (Work, Not Welfare Tax Credit).

The bill takes effect July 1, 2010, and applies to tax year 2010 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $278,800 in FY 2011 due to credits claimed under the tax credit program. Transportation Trust Fund (TTF) revenues decrease by $45,700 in FY 2011. Future year revenues reflect estimated number of eligible taxpayers claiming the credit and current economic forecast. General fund expenditures increase by $121,100 in FY 2011 due to administrative costs at the Department of Labor, Licensing, and Regulation (DLLR).

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	($278,800)	($325,400)	($392,700)	($667,400)	($622,200)
SF Revenue	($45,700)	($53,400)	($64,400)	($109,500)	($102,100)
GF Expenditure	$121,100	$123,200	$129,300	$135,700	$142,500
Net Effect	($445,600)	($502,000)	($586,400)	($912,600)	($866,800)

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

Local Effect: Local highway user revenues decrease by $13,700 in FY 2011 and by $29,100 in FY 2015. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The State Employment Opportunity Tax Credit (Work, Not Welfare Tax Credit) program terminated June 30, 2009. Businesses can also qualify for federal tax credits under the Work Opportunity Tax Credit as discussed below.

Background: The State Employment Opportunity Tax 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 be carried forward five tax years. **Exhibit 1** lists the amount of State employment opportunity tax credits claimed in tax year 1997 through 2006.

Exhibit 1
Employment Opportunity Tax Credits Claimed
Tax Year 1997-2006

Tax Year	Credits Claimed
1997	$163,000
1998	158,800
1999	522,200
2000	541,100
2001	331,700
2002	527,700
2003	800,300
2004	1,594,600
2005	1,055,900
2006	788,300
Total	**$6,483,600**

Numerous other federal and State tax credits are designed to promote employment. Some of these State credits are focused on specific groups and/or specific areas as discussed below. In addition to these State tax credits, businesses can typically deduct employee compensation costs; which typically lowers federal and State income tax liability.

Two other State income tax credits – the Long-Term Employment of Ex-Felons and Maryland Disability Employment Tax Credits – offer businesses a tax credit for hiring certain populations. These credits are generally equal to a portion of the wages, up to a maximum amount, paid to qualified individuals. In addition, businesses who hire eligible individuals may claim credits under the Enterprise Zone, One Maryland Economic Development, and Job Creation Tax Credit programs.

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 Temporary Assistance for Needy Families and Supplemental Nutrient Assistance Program recipients. The credit may be claimed for qualifying individuals hired after December 31, 2006, but before September 1, 2011. The maximum value of the credit ranges from $2,400 for each new adult hired 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.

DLLR is responsible for administering both the federal and State tax credit. In 2006, DLLR certified a total of 3,945 individuals. Most of the individuals who were hired worked in the service industry (40%) followed by clerical and sales (17%). **Exhibit 2** shows the average hourly wages paid to all certified individuals.

Exhibit 2
Average Hourly Wages Paid to Certified Hirees in 2006

Hourly Wages	Individuals	Percent
Up to $6	1,120	28%
$6 to $7	1,522	39%
$7 to $8	1,054	27%
$8 to $9	151	4%
Over $9	98	2%
Total	**3,945**	**100%**

Source: Department of Labor, Licensing, and Regulation

State Revenues: The bill re-establishes the State Employment Opportunity Tax Credit beginning in tax year 2010. As a result, general fund revenues will decrease by $278,800 in fiscal 2011 and TTF revenues decrease by $45,700. This estimate is based on the history of the existing tax credit program through tax year 2006 and the forecasted number of total jobs created in the State in each year.

Exhibit 3
Projected Revenue Losses – SB 468

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenues	$278,800	$325,400	$392,700	$667,400	$622,200
TTF Revenues	45,700	53,400	64,400	109,500	102,100
MDOT	32,000	38,200	46,000	7 8,300	73,000
Locals	13,700	15,200	18,400	31,200	29,100
Total Revenues	**$324,500**	**$378,800**	**$457,100**	**$776,900**	**$724,300**

State Expenditures: DLLR advises that tax credit administration at the department is currently staffed with federally funded positions responsible for administering the federal work opportunity tax credit. Administering the re-established State credit will require one job service specialist and one administration specialist. As a result, general fund expenditures increase by $121,100 in fiscal 2011. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$120,395
Operating Expenses	670
Total FY 2011 State Expenditures	**$121,065**

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

Local Revenues: Local highway user revenues decrease as a result of tax credits being claimed against the corporate income tax. **Exhibit 3** shows the decrease in fiscal 2011 through 2015.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Human Resources; Maryland Insurance Administration; Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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