SB 167

Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 167 (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, 2013, the termination date of the Qualifying Employees with Disabilities Tax Credit.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: General fund revenues decrease by $35,700 in FY 2013 due to extension of the tax credit. Transportation Trust Fund (TTF) revenues decrease by $3,000 and Higher Education Investment Fund (HEIF) revenues decrease by $2,200 in FY 2013. Future year revenues reflect the estimated number of eligible taxpayers claiming the credit and termination of the credit. Expenditures are not affected.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	($35,700)	($53,300)	($11,600)	$0	$0
SF Revenue	($5,200)	($13,500)	($3,000)	$0	$0
Expenditure	0	0	0	0	0
Net Effect	($40,900)	($66,800)	($14,600)	$0	$0

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

Local Effect: Minimal decrease in local highway user revenues in FY 2013 through 2015. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The Qualifying Employees with Disabilities Tax Credit terminates June 30, 2012. Businesses can also qualify for federal tax credits as discussed below.

Background: The Qualifying Employees with Disabilities Tax Credit allows an employer who hires 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 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 for the taxable year, and any unused amount may be carried forward five tax years. **Exhibit 1** lists the amount of Qualifying Employees with Disabilities tax credits claimed in tax years 1999 through 2009. Variable labor market conditions and the business cycle are likely contributors to the volatility of the number and amount of tax credits claimed in each year.

Exhibit 1
Employees with Disabilities Credits Claimed
Tax Year 1999-2009

Tax Year	Returns	Credits Claimed	Average
1999	30	$59,500	$1,983
2000	47	65,100	1,385
2001	26	23,300	896
2002	23	21,700	943
2003	15	185,700	12,380
2004	19	405,100	21,321
2005	27	374,900	13,885
2006	20	60,621	3,031
2007	7	15,446	2,207
2008	13	13,472	1,036
2009	8	18,542	2,318

The program is administered by the Division of Rehabilitation Services within DLLR. The number of individuals certified by DLLR as being eligible for the program decreased from an annual average of 400 in 2004 and 2005 to about 200 in 2005 through 2008. After further decreasing to 9 individuals in 2009 and 15 individuals in 2010, DLLR certified 72 individuals in 2011.

The federal Work Opportunity Tax Credit, which was first authorized by the Small Business Job Protection Act of 1996, is designed to provide an incentive to employers to hire groups of individuals that have traditionally had a high unemployment rate. The program has been modified over time, most recently by the federal American Recovery and Reinvestment Act of 2009, which provided a consolidated credit program for employment of 12 target groups, including veterans with service-connected disabilities and Supplemental Security Income recipients. The VOW to Hire Heroes Act of 2011 extended and modified the credit for hiring qualified veterans through December 31, 2012. The credit for all other targeted groups remains available only through December 31, 2011. The federal Disabled Access Credit and Barrier Removal Access deduction also provide tax benefits to eligible businesses that incur expenditures for the purpose of providing access to persons with disabilities.

The labor participation rate of individuals with disabilities typically depends on the type and severity of the disability and 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 Credit for individuals hired through June 30, 2013. As a result, general fund revenues will decrease by $35,700 in fiscal 2013. TTF revenues will decrease by $3,000 and HEIF revenues will decrease by $2,200 in fiscal 2013.

Exhibit 2 shows the estimated impact on State and local revenues.

Exhibit 2
State and Local Revenue Impacts
Fiscal 2013-2017

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Revenues	($40,900)	($66,800)	($14,600)	$0	$0
General Fund	(35,700)	(53,300)	(11,600)	0	0
HEIF	(2,200)	(3,600)	(800)	0	0
TTF	(3,000)	(9,900)	(2,200)	0	0
MDOT	(2,700)	(8,900)	(1,900)	0	0
LHUR	(300)	(1,000)	(200)	0	0

LHUR = Local Highway User Revenues
MDOT = Maryland Department of Transportation

Note: Totals may not sum due to rounding.

This estimate is based on the history of the existing credit and the following facts and assumptions:

- the bill applies to one-half of calendar 2012 and one-half of calendar 2013;
- the add-back provision of the credit reduces revenue losses by about 8% of the total amount claimed in each tax year; and
- about 90% of credits have been claimed against the corporate income tax in tax year 2000 through 2006.

To the extent that the recent decrease in the amount of credits claimed represents a permanent decrease in the utilization of the credit by businesses rather than a temporary decrease caused by the economy, revenue losses will be less than estimated.

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 $300 in fiscal 2013, $1,000 in fiscal 2014, and by $200 in fiscal 2015, as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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