HB 1163

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1163 (Delegate Summers, *et al.*)
Ways and Means

Income Tax Credit - Hiring Qualified Veterans

This bill expands eligibility of the qualifying employees with disabilities tax credit to include the employment of qualified veterans.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $199,800 in FY 2015 due to the expansion of the tax credit. Transportation Trust Fund (TTF) revenues decrease by $37,300 and Higher Education Investment Fund (HEIF) revenues decrease by $13,500 in FY 2015. Future year estimates reflect annualization and the current economic forecast. General fund expenditures increase by $64,500 in FY 2015 due to implementation costs at the Department of Labor, Licensing, and Regulation (DLLR).

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	($199,800)	($407,500)	($424,800)	($433,200)	($441,900)
SF Revenue	($50,800)	($103,700)	($96,700)	($98,600)	($100,500)
GF Expenditure	$64,500	$62,000	$65,000	$68,000	$71,300
Net Effect	($315,100)	($573,200)	($586,500)	($599,800)	($613,700)

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

Local Effect: Local highway user revenues will decrease minimally beginning in FY 2015 due to credits claimed against the corporate income tax. Local income tax revenues may increase minimally beginning in FY 2015 due to credits claimed against the personal income tax that are added back to Maryland adjusted gross income. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill expands eligibility for the qualifying employees with disabilities tax credit to include the hiring of qualified veterans who are certified by DLLR. In order to qualify, a veteran must (1) have been on active duty for at least 180 days or have been discharged from the U.S. Armed Forces with a service-connected disability and (2) be a member of a family that received federal Supplemental Nutrition Assistance Program (SNAP) benefits for at least 3 months during the 12-month period before being hired. A qualified veteran also includes a veteran who is certified by DLLR and is (1) entitled to service-connected disability compensation and (2) hired within 1 year of discharge from active duty or has been unemployed for at least 6 months during the 12 months prior to the hire date.

Current Law: 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 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.

Background:

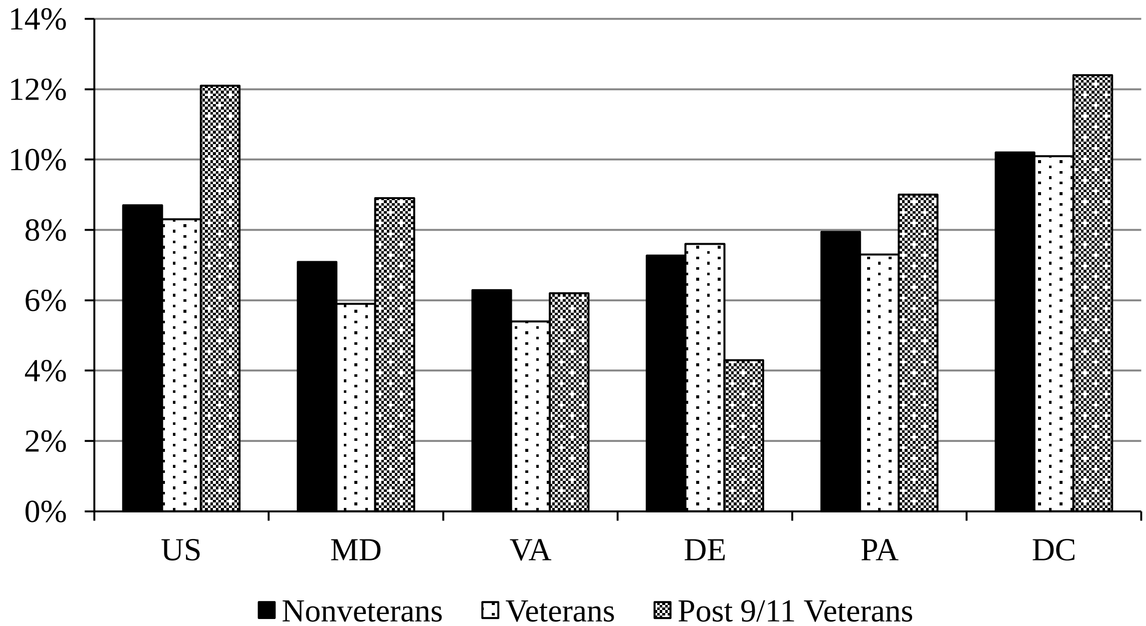
Veteran Employment and Tax Credits

The federal Work Opportunity Tax Credit (WOTC), 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, including 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 federal WOTC for veterans. The one-time credit ranges in value from $2,400 to $9,600, depending on whether the veteran was unemployed, is entitled to service-connected disability compensation, and receipt of certain benefits. The American Taxpayer Relief Act of 2012 extended the credits for veterans hired before January 1, 2014.

According to the U.S. Bureau of Labor Statistics, the national unemployment rate for veterans in 2012 was 7%, lower than the 7.9% rate for nonveterans. The unemployment rate for veterans who served on active duty in the U.S. Armed Forces at any time since September 2001 – a group referred to as Gulf War-era II veterans – was 9.9% in 2012. This group also reported a higher rate of service-connected disabilities (26% in 2011 compared with 14% for all veterans). However, among all veterans, the unemployment rate for veterans with a service-connected disability was similar to the rate for veterans with no disability. Gulf War-era II veterans are younger and have less education than other veterans. The unemployment rate among young male Gulf War-era II veterans was 29.1% in 2011, compared with an unemployment rate of 17.6% for nonveterans of the same age.

In Maryland there were 238,000 veterans in the labor force in 2011, about 8% of the total labor force. Approximately 14,000 of these veterans were unemployed, for an unemployment rate of 5.9% compared with a 7.1% unemployment rate for nonveterans. The unemployment rate for Gulf War-era II veterans, however, was 8.9%. **Exhibit 1** shows the unemployment rate by veteran status in 2011 for Maryland, the United States, and surrounding states.

Exhibit 1
State Unemployment Rates by Veteran Status
Calendar 2011



Sources: U.S. Bureau of Labor Statistics; U.S. Congress Joint Economic Committee

The Military Personnel and Service-Disabled Veteran Loan Program requires the Department of Business and Economic Development, in consultation with the Maryland Department of Veterans Affairs, to establish a program to provide no-interest loans to service-disabled veterans and specified businesses owned by or employing military reservists or National Guard personnel called to active duty. The Governor's proposed fiscal 2015 budget includes $300,000 in funding for the program.

State Revenues: The bill expands the qualifying employees with disabilities tax credit. As a result, general fund revenues will decrease by $199,800 in fiscal 2015. TTF revenues will decrease by $37,300 and HEIF revenues will decrease by $13,500 in fiscal 2015. **Exhibit 2** shows the estimated impact on State and local revenues.

Exhibit 2
State and Local Revenue Impacts
Fiscal 2015-2019

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total Revenues	**($250,600)**	**($511,200)**	**($521,400)**	**($531,800)**	**($542,400)**
General Fund	(199,800)	(407,500)	(424,800)	(433,200)	(441,900)
HEIF	(13,500)	(27,600)	(28,200)	(28,700)	(29,300)
TTF	(37,300)	(76,100)	(68,500)	(69,900)	(71,200)
MDOT	*(33,700)*	*(68,800)*	*(61,900)*	*(63,200)*	*(64,400)*
LHUR	*(3,600)*	*(7,300)*	*(6,600)*	*(6,700)*	*(6,800)*

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 tax credit and the following facts and assumptions:

- the bill applies to one-half of calendar 2014;
- 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 under the existing program have been claimed against the corporate income tax in tax year 2000 through 2006; and
- DLLR advises that it certified 337 qualified veterans under the federal WOTC in calendar 2012; it is assumed that half of these individuals will qualify for the State credit.

State Expenditures: It is estimated that DLLR will incur additional costs beginning in fiscal 2015 as a result of hiring one program administrator. As a result, general fund expenditures may increase by $64,500 in fiscal 2015, which reflects the bill’s July 1, 2014 effective date. It includes a salary, fringe benefits, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$59,587
Operating Expenses	4,950
Total FY 2015 DLLR Expenditures	**$64,537**

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

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 $3,600 in fiscal 2015 and by $6,800 in fiscal 2019, as shown in Exhibit 2. Local income tax revenues may increase minimally beginning in fiscal 2015 due to credits claimed against the personal income tax that are added back to Maryland adjusted gross income.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Bureau of Labor Statistics; U.S. Congress Joint Economic Committee; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2014
ncs/jrb

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