HB 1324

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1324 (Delegate A. Washington, *et al.*)
Ways and Means

Maryland Youth Employment Act of 2014

This bill creates a nonrefundable tax credit against a qualified employer's State income tax for hiring qualified employees between the ages of 16 and 24. The credit may be carried forward until the full amount of the credit is claimed. The Department of Business and Economic Development (DBED), in consultation with the Comptroller, must adopt regulations to implement the credit.

The bill takes effect July 1, 2014, and applies to tax year 2015 and beyond.

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues decrease by approximately $2.0 million annually beginning in FY 2016. General fund expenditures increase due to additional staffing needs at DBED and one-time implementation costs at the Comptroller's Office.

($ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF/SF Rev.	$0	($2.0)	($2.0)	($2.0)	($2.0)
GF Expenditure	$.1	$.1	$.1	$.1	$.1
Net Effect	($.1)	($2.1)	($2.1)	($2.1)	($2.1)

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

Local Effect: Local highway user revenues decrease annually beginning in FY 2016 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal. Qualifying small businesses that hire qualified employees benefit through lower income taxes.

Analysis

Bill Summary: A qualified employer may claim a credit of between $250 and $2,500 for each qualified employee. The amount of the credit depends on the full-time or part-time job status of the employee and the length of time that the employee is employed, as shown in **Exhibit 1**. A part-time job is considered at least 20 hours of work each week while a full-time job requires at least 40 hours of work each week.

Exhibit 1
Credit for Employing Qualified Employees

	1 Month	2 Months	3 to 8 Months	9 Months or More
Full-time employee	$500	$1,000	$1,500	$2,500
Part-time employee	$250	$500	$750	$1,250

Source: Department of Legislative Services

DBED must certify an individual as a qualified employee if the individual:

- is not attending school and does not possess a high school diploma or GED;
- is homeless;
- is now or has ever been in foster care;
- is a veteran;
- lives in public housing or receives housing assistance payments;
- served time in jail or prison;
- is on probation or parole;
- is a parent or pregnant;
- is the child of a parent who has been in jail or prison within the last two years or is collecting unemployment insurance; or
- is a member of a family that receives free or reduced-price meals, supplemental nutrition assistance program benefits, supplemental security income, or temporary assistance for needy families.

A qualified employer may not ask which criteria the qualified employee met to be certified as a qualified employee.

A business entity may apply to DBED to be certified as a qualified employer, and the application must describe how the position integrates science, technology, engineering, or mathematics, among other specified requirements. DBED, in consultation with the

Maryland State Department of Education, must adopt regulations that provide standards for determining if a position integrates science, technology, engineering, or mathematics.

If the amount of tax credits estimated to be claimed by qualified employers during a calendar year totals $2 million, DBED may not certify additional qualified employers in that year.

Current Law: No similar State tax credit currently exists, although the State has had similar credits in the past. A tax credit, which expired on June 30, 2013, allowed approved employers to claim tax credits in the amount of 15% of the wages paid to secondary or postsecondary students between 16 and 23 years of age who are participating in work-based learning programs. In order to claim the credit, employers must have: (1) employed the student for at least 200 hours; and (2) provided structured employer-supervised learning that integrates the student's classroom instruction, provides at least one unit of academic credit, and links each student's career interest. A written approved work-based learning program was required that included a description of the knowledge and skills to be gained and approval from the student's school. The total credit claimed per student could not exceed $1,500 for all tax years. The credit could be claimed by individuals against the State income tax and by insurers against the premium tax. A maximum of 1,000 students annually could be approved for participation in the tax credit program.

The New York Youth Works Program provides up to a $4,000 per youth tax credit for hiring employees age 16 to 24 who are certified to participate in the program. The youth must live in specified areas of New York and meet risk factor criteria, such as being homeless, pregnant or a parent, a veteran, or receive specified welfare benefits. A qualified employer may not ask which criteria the qualified employee met to be certified as a qualified employee. In 2012, 1,270 New York businesses across 12 targeted areas claimed tax credits for employing 12,866 at-risk youth.

The federal government has enacted several tax credits that target at-risk individuals. The federal Work Opportunity Tax Credit (WOTC), which was first authorized by the Small Business Job Protection Act of 1996, was 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 qualified ex-felons, veterans, summer youth employees, and Supplemental Security Income recipients. The American Taxpayer Relief Act of 2012 extended the credit through 2013, but it expired December 31, 2013.

Background: According to the Annie E. Casey Foundation, youth employment is at its lowest level since World War II. Youth who do not have opportunities for early work experience are more likely to endure later unemployment and less likely to achieve higher levels of career attainment. Youth who have been in the foster care system are particularly vulnerable, as they are often leaving the system with little, if any, financial support and without the "safety net" of an adult.

The Task Force to Study Housing and Supportive Services for Unaccompanied Homeless Youth reported in November 2013 that it is unclear how many unaccompanied homeless youth reside in Maryland, in large part because these youth frequently go unidentified or unserved, but there is reason to believe that the population is significant and growing. School systems across the State identified more than 14,691 homeless students in their schools during the 2011-2012 school year, up from approximately 13,000 only two years earlier.

State Revenues: DBED may not certify additional qualified employers in a calendar year if the amount of tax credits estimated to be claimed during that year totals $2 million. Assuming employers accurately estimate the amount of tax credits to be claimed, general fund, HEIF, and TTF revenues may decrease by $2 million annually beginning in fiscal 2016.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $30,960 in fiscal 2016 to add the credit to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

General fund expenditures for DBED increase by $56,550 in fiscal 2015, which reflects a 90-day start-up delay from the bill's July 1, 2014 effective date. This estimate reflects the cost of hiring one tax specialist to certify employers and employees and administer the tax credit. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salaries and Fringe Benefits	$51.745
Operating Expenses	4,805
Total FY 2015 State Expenditures	**$56,550**

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 governments receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease by a potentially significant amount beginning in fiscal 2016.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development; Department of Human Resources; Maryland State Department of Education; Department of Housing and Community Development; Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; Department of Veterans Affairs; Internal Revenue Service; New York Department of Labor; Annie E. Casey Foundation; Department of Legislative Services

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