Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 510 (Delegate B. Robinson, *et al.*)
Economic Matters and Ways and Means

Program for the Long-Term Employment of Qualified Ex-Felons

This bill establishes the Program for the Long-Term Employment of Qualified Ex-Felons. The Department of Labor, Licensing, and Regulation (DLLR) must administer the program, which provides incentives to business entities to employ qualified ex-felons. DLLR must purchase federal fidelity bonds and provide the bonds to designated one-stop employment and training centers for up to 150 qualified ex-offender participants each year. A business entity may receive a fidelity bond and an income tax credit for wages paid to a qualified ex-felon employee.

The bill takes effect July 1, 2016, and the program terminates December 31, 2021.

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues decrease beginning in FY 2018. The amount of revenue loss depends on the number of businesses that employ ex-felons, but based on historical data, it is not expected to exceed $20,000 annually. General fund expenditures increase by $141,500 in FY 2017 due to implementation and administrative costs at DLLR and the Comptroller's Office.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	$0	(-)	(-)	(-)	(-)
SF Revenue	$0	(-)	(-)	(-)	(-)
GF Expenditure	$141,500	$51,600	$53,400	$55,200	$57,000
Net Effect	($141,500)	($51,600)	($53,400)	($55,200)	($57,000)

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

Local Effect: Local highway user revenues decrease minimally in FY 2018. However, local income tax revenues increase minimally from the tax credit's addback provision. Expenditures are not affected.

Small Business Effect: Minimal. Small businesses that employ ex-felons may benefit by claiming an income tax credit.

Analysis

Bill Summary: The one-stop centers in at least two of the State's Workforce Investment Areas must work with community organizations and any State or local government entities that provide services to ex-felons and must also provide outreach and education to employers about the program. The centers must also develop an evaluation process for the program.

A business entity that hires a qualified ex-felon through the program will be able to obtain a federal fidelity bond for the qualified ex-felon for at least the first year of employment.

A business entity may claim a tax credit for wages paid to a qualified ex-felon employee. For each taxable year, a credit is allowed in an amount equal to (1) 30% of up to the first $6,000 of the wages paid to the qualified ex-felon employee during the first year of employment and (2) 20% of up to the first $6,000 of the wages paid to the qualified ex-felon employee during the second year of employment. A tax-exempt organization may apply the credit against income tax due on unrelated business taxable income or for the payment of specified employee withholding taxes.

A business entity may or may not claim the credit, or a portion of the credit, under specified conditions. Any excess credit may be carried forward for up to five taxable years. A taxpayer claiming the credit is required to add back the amount of the credit when determining Maryland adjusted gross income. DLLR, in consultation with the Governor's Workforce Investment Board, and the Comptroller are required to adopt regulations to carry out the provisions of the bill.

Current Law/Background: The State established the Pilot Program for the Long-Term Employment of Qualified Ex-Felons, which terminated on June 30, 2012. Under the program, business entities could receive a fidelity bond for employing a qualified ex-felon and a tax credit for wages paid to a qualified ex-felon employee, which are both identical to the ones offered by the bill. Between tax years 2007 and 2011, taxpayers claimed a total of $76,881 in credits.

While the program terminated on June 30, 2012, DLLR continues to administer the Federal Bonding Program, which provides fidelity bonds to businesses who hire qualified high-risk applicants, including individuals with a history of arrest, conviction, or incarceration. Fidelity bonds insure the business against stealing by theft, forgery, larceny, or embezzlement. In fiscal 2015, DLLR issued 29 fidelity bonds.

The federal Work Opportunity Tax Credit provides an incentive to employers to hire targeted groups of hard-to-employ individuals, including qualified ex-felons. The credit is generally 40% of the first $6,000 of qualified wages paid to each member of a targeted group during the first year of employment and 25% in the case of wages attributable to individuals meeting only specified minimum employment levels. The credit was recently extended through tax year 2019.

In fiscal 2015, 9,129 individuals who had been convicted of a felony were discharged from Department of Public Safety and Correctional Services facilities.

State Revenues: General fund, TTF, and HEIF revenues decrease from fiscal 2018 through 2022 to the extent that businesses in the State claim tax credits for employing qualified ex-felons. Assuming the credits claimed under the bill average the credits claimed in prior years, the annual revenue loss would be less than $20,000 annually. However, if more businesses hire ex-felons and claim the credit than in previous years, the revenue loss could be substantial.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $32,000 in fiscal 2017 to add the credit to the personal and corporate income tax credit form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

DLLR's general fund expenditures will increase by an estimated $109,545 in fiscal 2017, which reflects the bill's July 1, 2016 effective date. Since DLLR currently administers the Federal Bonding Program, which is more expansive than the bill's requirements, the bill's bond program does not affect DLLR's expenditures. However, for the State tax credit, DLLR cannot use existing federally funded staff to administer the tax credit, so DLLR needs one contractual tax specialist. Additionally, the bill requires DLLR to develop an evaluation process, which will cost $50,000. This estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Salary and Fringe Benefits	$54,580
Consulting Expenses	50,000
Other Operating Expenses	4,965
DLLR Expenditures	**$109,545**
Comptroller Expenditures	**32,000**
Total FY 2017 Expenditures	**$141,545**

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

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Public Safety and Correctional Services; Department of Legislative Services

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