

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 807

(Senator Smith, *et al.*)

Budget and Taxation

Ways and Means

Income Tax Credit - Wages Paid to Qualified Veteran Employees (Hire Our Veterans Act of 2017)

This bill creates a tax credit against the State income tax for a small business that hires a qualified veteran employee. A small business may claim an income tax credit that may not exceed 30% of up to the first \$6,000 of wages paid to the qualified veteran employee during the first year of employment. A small business may not claim the credit for more than five qualified veteran employees in a taxable year, and a maximum of \$500,000 in credits may be issued annually by the Department of Commerce (Commerce). The Secretary of Commerce must report to the General Assembly by June 30, 2020, on the effectiveness of the tax credit.

The bill takes effect July 1, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$448,500 beginning in FY 2018 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$36,500 and Higher Education Investment Fund (HEIF) revenues decrease by \$15,000 in FY 2018. General fund expenditures increase by \$32,000 in FY 2018 due to implementation costs at the Comptroller’s Office. Commerce can administer the tax credit program with existing resources.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$448,500)	(\$448,500)	(\$448,500)	(\$448,500)	(\$448,500)
SF Revenue	(\$51,500)	(\$51,500)	(\$51,500)	(\$51,500)	(\$51,500)
GF Expenditure	\$32,000	\$0	\$0	\$0	\$0
Net Effect	(\$532,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)

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

Local Effect: Local highway user revenues decrease by approximately \$3,500 annually beginning in FY 2018 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal. Small businesses that employ eligible veterans may benefit from claiming the tax credit.

Analysis

Bill Summary: A small business means an individual, partnership, limited partnership, limited liability partnership, a limited liability company, or a corporation that employs 50 or fewer full-time employees. A qualified veteran is an individual who was honorably discharged or released under honorable circumstances from active military, naval, or air service as defined in 38 U.S.C. 101 and is a qualified veteran for purposes of the federal Work Opportunity Tax Credit. A small business may not claim the credit for a qualified veteran employee who replaces a laid-off employee or an employee who is on strike.

A small business must submit an application to Commerce, and Commerce must certify the amount of any approved tax credit within 45 days of receiving the application. Tax credit applications are approved on a first-come, first-served basis, and the bill specifies the information an application must include. Commerce must report to the Comptroller by January 31 of each taxable year on the tax credit certificates issued during the prior taxable year. Commerce must adopt regulations that provide for the administration of the tax credit.

Current Law/Background: The federal Work Opportunity Tax Credit provides an incentive to employers to hire targeted groups of hard-to-employ individuals, including qualified veterans. 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.

The State provides several employment tax credits, such as the job creation, the enterprise zone, One Maryland, and businesses that create new jobs tax credits.

According to the U.S. Census Bureau, there were 207,831 veterans between the ages of 18 and 64 living in the State in 2015, of which 171,382 were in the labor force and 6,792 were unemployed.

State Revenues: Commerce may approve a maximum of \$500,000 in credits annually beginning in tax year 2017, and the credit may not exceed \$1,800 for each eligible

veteran. As a result, general fund revenues decrease by \$448,525, TTF revenues decrease by \$36,475, and HEIF revenues decrease by \$15,000 in fiscal 2018. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit.

**Exhibit 1
Fiscal Impact
Fiscal 2018-2022**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
General Fund	(\$448,525)	(\$448,525)	(\$448,525)	(\$448,525)	(\$448,525)
HEIF	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
TTF	(36,475)	(36,475)	(36,475)	(36,475)	(36,475)
<i>State</i>	(32,973)	(32,973)	(32,973)	(32,973)	(32,973)
<i>Local</i>	(3,502)	(3,502)	(3,502)	(3,502)	(3,502)
Total	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)

HEIF: Higher Education Investment Fund

TTF: Transportation Trust Fund

The Department of Legislative Services assumes that Commerce awards the maximum amount of credits each year. The estimate also assumes that 50% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

State Expenditures: The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$32,000 in fiscal 2018 for data processing changes to the SMART income tax return processing and imaging systems and systems testing. Commerce can administer the tax credit program with existing resources.

Local Revenues: Local highway user revenues decrease by approximately \$3,500 annually beginning in fiscal 2018 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: HB 349 (Delegate Miele, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office; Department of Commerce; U.S. Census Bureau; Maryland Department of Veterans Affairs; Department of Legislative Services

Fiscal Note History: First Reader - February 14, 2017
fn/jrb Third Reader - April 6, 2017
Revised - Amendment(s) - April 6, 2017

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