

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 647 (Chair, Judiciary Committee)(By Request - Departmental
 - Human Services)

Judiciary

Child Support - Reporting of Employment Information

This departmental bill requires employing units to report specified information to the Department of Human Services (DHS) instead of the Maryland Department of Labor (MDL), thereby transferring related responsibilities from MDL to DHS. The bill also alters the definition of “earnings” in provisions of law relating to child support enforcement to include any payment received by an independent contractor that is reported on IRS Form 1099.

Fiscal Summary

State Effect: Unemployment Insurance Trust Fund (UITF) revenues decrease by \$431,400 in FY 2021 from the elimination of penalties paid to MDL; future years reflect annualization. General/special fund revenues may increase beginning in FY 2021 due to penalties and increased collections, as discussed below. UITF expenditures increase by \$471,100 in FY 2021; future years reflect annualization and ongoing costs.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF/SF Rev.	-	-	-	-	-
NonBud Rev.	(\$431,400)	(\$575,100)	(\$575,100)	(\$575,100)	(\$575,100)
NonBud Exp.	\$471,100	\$259,600	\$265,500	\$274,700	\$284,200
Net Effect	(\$902,400)	(\$834,800)	(\$840,600)	(\$849,800)	(\$859,400)

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

Local Effect: The bill does not materially impact local government operations or finances.

Small Business Effect: DHS has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment.

Analysis

Bill Summary/Current Law:

New-hire Employee Reporting

Currently, within 20 days of an employee beginning employment, the employing unit must submit to the Secretary of Labor:

- the Social Security number of the employee;
- the name of the employee;
- the address of the employee;
- the date of employment;
- the employing unit's name and address;
- the employee's starting wage;
- whether the employee has health insurance provided by the employing unit;
- the federal employer identification number of the employing unit; and
- the State unemployment insurance (UI) account number of the employing unit.

The employing unit must report the required information by mail, magnetically or electronically, or by other means as determined by the Secretary.

Any employing unit that fails to report employee data as required must be (1) given a written warning for the first violation and (2) subject to a civil penalty of \$20 for each month in which a subsequent violation occurs, or \$500 if the failure is the result of a conspiracy between the employer and the employee to not supply the required report or to supply a false or incomplete report, unless the Secretary waives the penalty for cause.

Separation Notices

Under current law, on request of the Secretary of Labor, an employing unit must report the separation from employment of an individual to the Secretary. The employing unit must complete the notice on a form or in a manner that the Secretary requires and submit the notice within specified timeframes. On request, an employing unit must also submit to the Secretary a report of the wages of any of its employees. An employer that fails to submit a separation notice or report of is subject to a penalty of \$15 for each notice unless the Secretary waives the penalty for cause.

Statutory provisions also require employing units to submit notice to the Secretary in other specified circumstances, including if the employing unit lays off at least 25 employees for

the same reason at or about the same time in a single establishment for a period that is permanent, indefinite, or expected to exceed seven days.

Under current law, MDL is responsible for gathering new hire employment information and separation notices, as specified above, from relevant employing units. Under the bill, these responsibilities are transferred to DHS.

Child Support Collections

Pursuant to statutory provisions, the Child Support Administration within DHS oversees child support services provided by the local departments of social services and other offices, including the establishment of paternity and/or child support orders and the collection and distribution of child support payments. Statutory provisions specify a process by which child support payments may be deducted from the earnings of a child support obligor. "Earnings" include any form of periodic payment to an individual, including specified examples and any commissions or fees paid in connection with the obligor's employment. The bill expands the definition of earnings to include payments received by an independent contractor that are reported on IRS Form 1099. An "independent contractor" means a person or governmental entity that receives earnings from an employing unit that are reported on IRS Form 1099.

Background: Employing units report new hire information and employee separation notices to the State Directory of New Hires (SDNH). SDNH forwards information to the National Directory of New Hires, where new hire reports are matched against state and national child support records to locate parents who owe child support. According to DHS, the bill is intended to reflect that SDNH is a program required by the federal Office of Child Support Enforcement. Furthermore, adding provisions related to independent contractors allows for increased child support collections for families.

State Expenditures: According to MDL, since employing units currently report relevant employee information to MDL, it is able to use SDNH and the separation notices to monitor UI claims. MDL advises that it is critical to know the employment status of individuals who have filed UI claims, or who currently receive UI benefits. MDL advises that because the bill eliminates its authority to require specific information from employing units and control the substance of and manner by which employing units submit the required information, under the bill, it needs to develop another mechanism for obtaining information from employing units in order to appropriately monitor UI claims. Accordingly, UITF expenditures increase by \$471,078 in fiscal 2021, which accounts for the bill's October 1, 2020 effective date. This estimate reflects the cost of hiring one investigator, two auditors, and one administrator to oversee a new reporting system for MDL. It includes salaries, fringe benefits, the cost of developing a new reporting database, one-time start-up costs, and ongoing operating expenses.

Positions	4
Salaries and Fringe Benefits	\$199,613
Programming Changes	250,000
Other Operating Expenses	<u>21,465</u>
Total FY 2021 MDL Expenditures	\$471,078

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

MDL advises that to continue effectively administering a UI program, it must ensure that any information it receives from DHS regarding employee units can be integrated into its existing information technology systems. Accordingly, the estimate above includes programming costs of \$250,000 to allow for information to be received electronically from DHS. As this program relates directly to the UI program, it is assumed that UITF can be used. To the extent that UITF cannot be used, general fund expenditures increase accordingly.

This analysis does not include information about reimbursements from DHS to MDL for current services. Furthermore, some of the above expenditures related to staffing needs may be mitigated or even eliminated entirely depending on implementation by DHS.

DHS can absorb any potential impact associated with the bill’s requirements using existing budgeted resources.

State Revenues: UITF revenues decrease by approximately \$431,354 in fiscal 2021 (which reflects the bill’s October 1, 2020 effective date) and by approximately \$575,139 annually thereafter from the elimination of fees obtained from employing units that fail to report separation notices to MDL. This estimate is based on the penalties assessed in fiscal 2019; any penalties imposed after the bill’s effective date will instead be paid to DHS. Although DHS does not anticipate any associated impact on revenues, DLS advises that to the extent that DHS imposes penalties, general fund revenues may increase by similar amounts.

Temporary Cash Assistance (TCA) recipients must assign their support rights to the State and federal governments as partial reimbursement for payments made on behalf of the children of the obligor. As a result, after specified initial amounts are passed through directly to the family, TCA child support collections are distributed 50% to the State and 50% to the federal government. Accordingly, special fund revenues increase to the extent that child support ordered and collected in cases involving “independent contractors” increases. Any impact on child support collections involving TCA recipients cannot be reliably quantified beforehand.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Judiciary (Administrative Office of the Courts); Department of Human Services; Maryland Department of Labor; Department of Legislative Services

Fiscal Note History: First Reader - February 12, 2020
an/jkb

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Child Support- Reporting of Employment Information

BILL NUMBER: HB647

PREPARED BY: Department of Human Services
(Dept./Agency)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS