DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 12, 2011 **BILL NUMBER:** SB 640
POSITION: Oppose **AUTHOR:** S. Runner

BILL SUMMARY: PIT & CIT: Credit for hiring unemployed individuals

This bill would provide a new credit to a taxpayer with 50 or fewer employees for a hiring an unemployed individual at a gross salary of least $1,500 per month.

FISCAL SUMMARY

The Franchise Tax Board (FTB) estimates the revenue losses associated with this measure at $44 million in 2011-12, $18 million in 2012-13, and $9.7 million in 2013-14.

FTB notes that it is unable to determine the costs to administer this bill due to implementation concerns that have still to be resolved.

COMMENTS

Finance opposes this measure because it would result in a major annual revenue loss to the General Fund. In addition, the FTB's administrative costs are unknown.

Analyst/Principal (0724) R. Lawrence	Date	Program Budget Manager Mark Hill	Date
Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved_______ Position Disapproved

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ANALYSIS

A. Programmatic Analysis

Under current state law, Chapter 17, Statutes of 2009, Third Extraordinary Session (X3 SB15), allows a credit for taxable years beginning on or after January 1, 2009, for a qualified employer in the amount of $3,000 for each qualified full-time employee hired in the taxable year, determined on an annual full-time basis equivalent. The calculation of annual full-time basis would be the total number of hours worked for the taxpayer by the employee (not to exceed 2,000 hours per employee) divided by 2,000. A qualified employer is a taxpayer employing 20 or less employees. This credit is allocated by the FTB and has a cap of $400 million for all taxable years. The credit remains in effect until December 1 of the calendar year after the year in which the cumulative credit limit has been reached and is repealed after that date. Any credits not used in the taxable year may be carried forward up to eight taxable years.

Note: As of July 2, 2011, the total Personal Income Tax and Business Entity returns claiming the Jobs tax credit was 10,081, and the amount of credits claimed was $59.5 million.

There has been a low amount of credit generated so far, relative to the amount of credit that could, conceptually, have been claimed. Finance believes that the primary reasons for this underutilization are that businesses are not aware of the credit, and the documentation requirements on eligible small business may be too onerous to warrant seeking the credit. Additionally, the pace of hiring in the recovery has been slower than anticipated.

This bill would provide a new credit for taxable years beginning on or after January 1, 2011, for a qualified employer in the amount of $500 per month, up to a maximum of $6,000 per employee, for each qualified employee hired during the taxable year. To qualify for the credit, the following criteria must be met:

- The qualified employee must have been receiving unemployment insurance benefits for at least six months immediately prior to being hired.
- The job for which the employee is hired must be a non-seasonal full-time job with a gross salary of at least $1,500 in any month for which the credit is allowed.
- The qualified employer must be a taxpayer that employed 50 or fewer employees as of the last day of the preceding taxable year.

The credit amount per qualified employee would be $500 per month multiplied by the number of consecutive months and would be limited to 12 consecutive calendar months or $6,000 per employee. If the employee worked at least 2 weeks and earned at least $750, the credit amount would be $250 per two-week pay period, and the 12 month limitation would be two two-week pay periods.

The credit would be allocated by the FTB and have a cap of $50 million for all taxable years. The cutoff date for the credit would be the last day of the calendar quarter within which the FTB estimates that it will have received timely filed original returns claiming credits that cumulatively total $50 million for all taxable years.

The FTB would be required to periodically provide notice on its website with respect to the amount of the credit claimed on timely filed original returns.

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The credit would remain in effect until December 1 of the calendar year after the year in which the cumulative credit limit has been reached and is repealed after that date.

Unused credits could be carried forward for up to six taxable years until exhausted.

This bill would take effect immediately as a tax levy and specifies that it would be operative for tax years beginning on or after January 1, 2011.

B. Fiscal Analysis

The FTB estimates the revenue losses associated with this measure at $44 million in 2011-12, $18 million in 2012-13, and $9.7 million in 2013-14.

FTB notes that it is unable to determine the costs to administer this bill due to implementation concerns that have still to be resolved.

Assumptions behind the FTB's estimate

First, FTB notes that this bill does not require businesses to increase their total employment to be eligible for a credit. This expands the pool of eligible employers significantly, as businesses are constantly hiring to replace existing vacant positions.

Secondly, according to the FTB, this bill requires FTB to cut off approving credits at the end of the calendar quarter in which it has received $50 million in credit claims. Thus, the impact of the bill is greater than $50 million because credits would continue to be approved by FTB after the cutoff has been reached. (Detailed below)

The FTB estimate is based on the following from the Employment Development Department: the number of unemployed in 2011 (approximately 2.2 million), the percent unemployed for 6 or more months (approximately 57 percent), the percent of those covered by unemployment insurance (approximately 30 percent), and the percent of employers with 50 or fewer employees (approximately 47 percent). From this data it was estimated that on an annual basis roughly 160,000 employees each year would be potentially eligible for credits. This translates into $80 million (160,000 x $500) in costs per month.

To this monthly figure, FTB made adjustments for jobs that do not meet the “qualified” definition (15 percent reduction), and employers who receive hiring subsidies thru other state or federal programs like Enterprise Zones (15 percent reduction). This reduced the revenue impact to about $60 million a month. A further reduction of 75 percent was taken to account for eligible employers who would not apply for the subsidy. The net result is a $15 million impact per month.

With the cutoff rules established in the bill, the program would provide credits for 6 months (the $50 million cap would be reached in month 4, but credits would be given out until the end of the quarter, or month 6). This leads to total costs of about $90 million (6 x $15 million). FTB then applied their standard assumptions for when employers would actually be able to use these credits and converted the tax year numbers into fiscal years.

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	SO	(Fiscal Impact by Fiscal Year)							
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
1104/Corp Tax	RV	No	U	-$44,000	U	-$18,000	U	-$10,000	0001
1730/FTB	SO	No	--------------------- See Fiscal Summary ---------------------						0001