

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Credit for Employment of Veterans

February 29, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2139 (Bills), First Engrossment, As Proposed to be Amended (H2139A2)

	<u>Fund Impact</u>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
			(000's)	
General Fund	\$0	(\$13,800)	(\$14,500)	(\$15,300)

Effective beginning with tax year 2012.

EXPLANATION OF THE BILL

The bill would establish a nonrefundable credit for employers who hire qualified veterans in Minnesota. Unused credit amounts could be carried forward for up to ten years. A qualified veteran is one who meets the requirements that allow an employer to qualify for the federal Work Opportunity Credit. The proposed Minnesota credit equals the federal credit. The federal credit is generally 40% of a capped amount of wages paid during the first year of employment. The capped amount depends on the category into which the qualifying veteran falls. There are four such categories:

1. For veterans who received food stamps for at least three months in the 12 months prior to the hiring date, the maximum credit is \$2,400 (first \$6,000 of wages).
2. For disabled veterans hired within a year of discharge from the military, the maximum credit is \$4,800 (first \$12,000 of wages).
3. For veterans who were unemployed for at least six months in the year prior to being hired and who are not disabled, the maximum credit is \$5,600 (first \$14,000 of wages).
4. For veterans who were unemployed for at least six months in the year prior to being hired and who are disabled, the maximum credit is \$9,600 (first \$24,000 of wages).

The federal credit for veterans is scheduled to expire December 31, 2012, while the federal credit for other groups expired December 31, 2011. The state credit would continue without expiration.

REVENUE ANALYSIS DETAIL

- The federal Work Opportunity Credit is allowed for employers who hire from any of eight different categories of targeted groups, of which qualified veterans are one.
- In 2010, there were 2,757 Minnesota taxpayers who claimed the federal Work Opportunity Credit and who filed electronic individual income tax returns. The total credit amount claimed was \$11,196,873. It is assumed that if paper returns are included the credit amount would be 10% higher, making the total \$12,316,560. It is not known how many individuals were hired who qualified the employer for the credit.

REVENUE ANALYSIS DETAIL (Cont.)

- Pass-through entities such as partnerships and S corporations also claimed the credit. There were \$2,358,476 credits claimed by pass-through entities that did not appear on the individual income tax returns.
- No information is available about the federal credit claimed by Minnesota C corporations, but federal data show that the credit claimed by corporations is a multiple of that claimed on the individual tax return. The ratio of corporate credit to individual credit varies between about 7 and 12 depending presumably on the business cycle among other factors. Assuming a ratio of 9 means the total credit claimed by those corporations was \$110,489,043.
- Veterans were included in the list of targeted groups eligible for the federal Work Opportunity Credit later than some other groups. In the absence of information on the proportion of veterans in the number of those hired who qualify the employer for the credit, it is assumed that 10% of Minnesota hires were qualified veterans, and therefore 10% of the credit amount, or \$12,552,408, would have equaled the state credit in 2010.
- It is assumed that the credit would grow at 5% annually.
- Tax year impacts were allocated to the following fiscal year.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy