

MINNESOTA • REVENUE

CORPORATE FRANCHISE TAX INDIVIDUAL INCOME TAX Credit for Hiring Long-Term Unemployed

March 20, 2013

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 18 (Mullery) / S.F. 1095 (Koenen)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	(\$34,200)	(\$28,200)	(\$23,000)	\$0

Effective for taxable years beginning after December 31, 2012.

EXPLANATION OF THE BILL

The bill establishes a nonrefundable credit against the individual income or corporate franchise taxes for employers equal to 40% of the qualified wages paid by the employer during the taxable year to qualified long-term unemployed individuals. The credit is allowed during the one-year period beginning with the hire date for the individual, not to exceed \$10,000 of wages.

To be considered a qualifying employer, the business must hire a qualified long-term unemployed individual. A qualified long-term unemployed individual is an individual that is certified by the Commissioner of Employment and Economic Development as either: 1) having aggregate periods of unemployment during the two-year period ending on the hiring date which equal or exceed 12 months, or 2) receiving state or federal unemployment compensation for not less than twelve months during the two-year period ending on the hiring date.

A qualifying individual may not have been a student for six months or more during the one-year period ending on the hiring date. For the employer to qualify for the full credit, the qualified employee must have worked 400 hours. The credit to the employer is reduced from 40% to 25% of wages for employees that have worked between 120 and 400 hours. No employer credit is allowed for employees working less than 120 hours.

No credit is allowed for wages paid to an individual that has been employed by the employer at any time prior to the hiring date. A qualified employee does not include any employee who is related to the employer, owns 50% of the outstanding stock in the hiring corporation, owns more than 50% of the capital and profits interests of the hiring corporation, or has any relationship as a grantor, beneficiary, or fiduciary where the employer is an estate or a trust.

The tax credit may not exceed the net tax liability. If the amount of the credit exceeds this limit, the excess can be carried over for up to 15 succeeding taxable years.

The credit expires for wages paid in taxable years beginning after December 31, 2015.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from the Minnesota Department of Employment and Economic Development (DEED).
- Approximately 5.6% of the state workforce of 2,525,000 was unemployed for calendar year 2013.
- Over the last ten years, approximately 19% of unemployment insurance claimants have received at least 4 quarters of unemployment payments. Similarly, 13% have received at least 7 quarters of unemployment payments. It is assumed that annually there will be 13,430 individuals that qualify with at least one year of unemployment.
- Based on information from DEED, it is expected that the qualifying re-employed group will be divided 65% with more than 400 hours worked, 20% with between 120 hours and 400 hours worked, and 15% under 120 hours worked.
- It is assumed that 85% of individuals re-employed from the long-term unemployed group will be re-employed in the private sector with a median quarterly wage of \$5,840.
- It is expected that 80% of this group of re-employed will find full-time employment and 20% will be re-employed in part-time employment.
- For those employees that work more than 400 hours (maximum credit equal to 40% of \$10,000 wages), it is assumed that the average credit claim amounts will be \$3,800 for full-time workers and \$3,500 for part-time workers.
- For employees working less than 400 hours (maximum credit equal to 25% of wages), it is assumed that the average credit claim amounts will be \$1,000 for full-time workers and \$750 for part-time workers.
- It is expected that the total credit will decline somewhat over the effective period due to a declining pool of long-term unemployed. An annual reduction of 5% was applied to the total credit.
- No adjustment is made for possible carryovers to each of the 15 succeeding taxable years.

Source: Minnesota Department of Revenue
Tax Research Division
[www.revenue.state.mn.us/research_stats/Pages/
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)