[JOINT COMMITTEE PRINT]

DESCRIPTION OF THE TARGETED JOBS TAX CREDIT AND S. 1250

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON SAVINGS, PENSIONS, AND INVESTMENT POLICY

OF THE

COMMITTEE ON FINANCE

ON NOVEMBER 22, 1985

PREPARED BY THE STAFF

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INTRODUCTION

The Subcommittee on Savings, Pensions, and Investment Policy of the Senate Committee on Finance has scheduled a public hearing on November 22, 1985, to review the targeted jobs tax credit, which is scheduled to expire after December 31, 1985.

The first part of the pamphlet[1] is a summary. The second part discusses the legislative history of the targeted jobs credit, the present targeted jobs credit rules, and participation levels in the jobs credit program. Part three describes S. 1250 (sponsored by Senators Heinz, Domenici, Boren, Symms, Heflin, Grassley, Baucus, Matsunaga, and others), which would extend the credit for five years and modify the credit rules in certain respects. Part three also describes some other legislative proposals relating to the credit. Finally, an Appendix presents Department of Labor data on targeted jobs credit participation for fiscal years 1982 through 1984.

[1] This pamphlet may be cited as follows: Joint Committee on Taxation, *Description of the Targeted Jobs Tax Credit and S. 1250* (JCS-45-85), November 21, 1985.

I. SUMMARY

Background and present law

The targeted jobs tax credit was enacted in the Revenue Act of 1978 to replace the expiring credit for increased employment . As originally enacted, the targeted jobs credit was scheduled to terminate after 1981. The availability of the credit was successively extended by the Economic Recovery Tax Act of 1981 (ERTA) for one year, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) for two years, and the Deficit Reduction Act of 1984 (the 1984 Act) for one year. Under present law, the credit will not apply with respect to individuals who begin work for the employer after December 31, 1985 (Code sec. 51). For individuals beginning work before 1986, the credit is available for wages paid during the following 24 months of employment (see below).

The targeted jobs tax credit is available for hiring individuals from one or more of nine targeted groups. The targeted groups are (1) vocational rehabilitation referrals; (2) economically disadvantaged youths age 18 through 24; (3) economically disadvantaged Vietnam-era veterans; (4) SSI recipients; (5) general assistance recipients; (6) economically disadvantaged cooperative education students age 16 through 19; (7) economically disadvantaged former convicts; (8) AFDC recipients and WIN registrants; and (9) economically disadvantaged summer youth employees age 16 or 17.

The credit generally equals 50 percent of the first $6,000 of qualified first-year wages and 25 percent of the first $6,000 of qualified second-year wages paid to a member of a targeted group. Thus, the maximum credit is $3,000 per individual in the first year of employment and $1,500 per individual in the second year of employment, or a maximum credit of $4,500 over a two-year period. (With respect to economically disadvantaged summer youth employees, however, the credit is equal to 85 percent of up to $3,000 of wages, for a maximum credit of $2,550.) The employer's deduction for wages must be reduced by the amount of the credit.

S. 1250—Senators Heinz, Domenici, Boren, Symms, Heflin, Grassley, Baucus, Matsunaga, and others

S. 1250 would extend the targeted jobs tax credit for five years. Thus, the credit would be available for qualified wages paid to individuals who begin work for the employer before December 31, 1990, for wages paid during the following 24 months of employment.

The bill also would liberalize the eligibility requirements for membership in the vocational rehabilitation referral and SSI recipient targeted groups and modify the eligibility requirements for membership in the general assistance recipient targeted group.

II. BACKGROUND AND PRESENT LAW

Legislative Background

The targeted jobs tax credit (sec. 51) is intended to provide a tax incentive for hiring specific, targeted groups of individuals. It was enacted in the Revenue Act of 1978 as a substitute for the credit for increased employment (the "new jobs credit") that was available in 1977 and 1978. As originally enacted, the targeted jobs credit was scheduled to terminate after 1981.

The availability of the targeted jobs credit was extended by the Economic Recovery Tax Act of 1981 (ERTA) for one year, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) for two years, and the Deficit Reduction Act of 1984 (the 1984 Act) for one year. Under present law, the credit will not apply to wages paid to individuals who begin work for the taxpayer after December 31, 1985. For those beginning work before 1986, the credit is available for 50 percent of qualified wages paid in the first 12 months of employment and 25 percent of qualified wages paid in the second 12 months of employment.

In addition to extending the credit, ERTA, TEFRA, and the 1984 Act modified the targeted group definitions and made several administrative and technical changes in the credit provisions.

Present Law

General rules

The targeted jobs tax credit is available on an elective basis for hiring individuals from one or more of nine targeted groups. The credit generally equals 50 percent of qualified first-year wages and 25 percent of qualified second-year wages.

Qualified first-year wages consist of wages attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual first begins work for the employer. (For a vocational rehabilitation referral, however, the period begins the day the individual begins work for the employer on or after the beginning of the individual's vocational rehabilitation plan.) Qualified second-year wages consist of wages attributable to service rendered during the one-year period which begins at the close of the first year (as defined above). Thus, the date on which the wages are paid does not determine whether the wages are first-year or second-year wages; rather, the wages must be attributed to the period during which the work was performed.

No more than $6,000 of wages during either the first or second year of employment may be taken into account with respect to any individual. Thus, the maximum credit per individual generally is $3,000 in the first year of employment and $1,500 in the second year of employment. With respect to economically disadvantaged summer youth employees, the credit is equal to 85 percent of up to $3,000 of qualified first-year wages, for a maximum credit of $2,550, with no credit for any second-year wages.

The employer's deduction for wages must be reduced by the amount of the credit.

Certification of members of targeted groups

Prior to the 1984 Act, an individual was not treated as a member of a targeted group unless certification of such a membership was received or requested in writing by the employer from the designated local agency on or before the day on which the individual began work for the employer. In the case of a certification of an economically disadvantaged youth participating in a cooperative education program, this requirement was satisfied if necessary certification was requested or received from the participating school on or before the day on which the individual began work for the employer.

The 1984 Act extended the deadline for requesting certification of targeted group membership until five days after the day the individual begins work for the employer, provided that, on or before the day the individual begins work, the individual has received a written preliminary determination of targeted group eligibility (a "voucher") from the designated local agency (or other agency or organization designated pursuant to a written agreement with the designated local agency). This amendment applies to individuals who begin work for the employer after the date of enactment of the 1984 Act (July 18, 1984). The "designated local agency" is the State employment security agency.

If a certification is incorrect because it was based on false information provided by a member of a targeted group, the certification is to be revoked, so that wages paid after the revocation notice is received by the employer are not treated as qualified wages.

The U.S. Employment Service, in consultation with the Internal Revenue Service, is to take whatever steps are necessary to keep employers apprised of the availability of the credit.

Targeted groups eligible for the credit

The nine groups eligible for the credit consist of individuals who are either recipients of payments under means-tested transfer programs, economically disadvantaged (as measured by family income), or disabled. These groups are indicated below.

(1) Vocational rehabilitation referrals

Vocational rehabilitation referrals are individuals who have a physical or mental disability that constitutes a substantial handicap to employment and who have been referred to the employer while receiving, or after completing, vocational rehabilitation services under an individualized, written rehabilitation plan under a State plan approved under the Rehabilitation Act of 1973, or under a rehabilitation plan for veterans carried out under chapter 31 of title 38, U.S. Code. Certification can be performed by the designated local employment agency upon assurances from the vocational rehabilitation agency that the employee has met the above conditions.

(2) Economically disadvantaged youths

Economically disadvantaged youths are individuals certified by the designated local employment agency as (a) members of economically disadvantaged families and (b) at least age 18 but not age 25 on the date they are hired by an employer. An individual is determined to be a member of an economically disadvantaged family if his or her family income, during the six months immediately preceding the earlier of the month in which the determination occurs or the month in which the hiring date occurs would be, on an annual basis, 70 percent or less of the Bureau of Labor Statistics lower living standard. A determination that an individual is a member of an economically disadvantaged family is valid for 45 days from the date on which the determination is made.

Except as otherwise noted below, a determination of whether an individual is a member of an economically disadvantaged family is made on the same basis and is subject to the same 45-day limitation where required in connection with the four other targeted groups that exclude individuals not economically disadvantaged.

(3) Economically disadvantaged Vietnam-era veterans

The third targeted group consists of Vietnam-era veterans certified by the designated local employment agency as members of economically disadvantaged families.

For this purpose, a Vietnam-era veteran is an individual who has served on active duty (other than for training) in the Armed Forces for more than 180 days, or who has been discharged or released from active duty in the Armed Forces for a service-connected disability; in either case, the active duty must have taken place after August 4, 1964, and before May 8, 1975. However, any individual who has served for a period of more than 90 days during which the individual was on active duty (other than for training) is not an eligible employee if any of this active duty occurred during the 60-day period ending on the date the individual is hired by the employer. This latter rule is intended to prevent employers that hire current members of the Armed Services (or those recently departed from service) from receiving the credit.

(4) SSI recipients

SSI recipients are those receiving either Supplemental Security Income under Title XVI of the Social Security Act or State supplements described in section 1616 of that Act or section 212 of P.L. 93-66. To be an eligible employee, the individual must have received SSI payments during a one-month or longer period ending during the 60-day period which ends on the date the individual is hired by the employer. The designated local agency is to issue the certification after a determination by the agency making the payments that these conditions have been fulfilled.

(5) General assistance recipients

General assistance recipients are individuals who receive general assistance for a period of not less than 30 days if this period ends within the 60-day period ending on the date the individual is hired by the employer. General assistance programs are State and local programs which provide individuals with money payments, vouch ers, or scrip based on need. These programs are referred to by wide variety of names, including home relief, poor relief, tempo rary relief, and direct relief. Because of the wide variety of suc programs, Congress provided that a recipient will be an eligibl employee only after the program has been designated by the Secre tary of the Treasury as a program which provides money pay ments, vouchers, or scrip to needy individuals. Certification is b performed by the designated local agency.

(6) Economically disadvantaged cooperative education stu dents

The sixth targeted group consists of youths who (a) actively par ticipate in qualified cooperative education programs, (b) have at tained age 16 but have not attained age 20, (c) have not graduate from high school or vocational school, and (d) are members of eco nomically disadvantaged families.

The definitions of a qualified cooperative education program an a qualified school are similar to those used in the Vocational Edu cation Act of 1963. Thus, a qualified cooperative education progran means a program of vocational education for individuals who through written cooperative arrangements between a qualifie school and one or more employers, receive instruction (includin required academic instruction) by alternation of study in schoo with a job in any occupational field, but only if these two experi ences are planned and supervised by the school and the employe so that each experience contributes to the student's education an employability.

For this purpose, a qualified school is (1) a specialized high schoo used exclusively or principally for the provision of vocational edu cation to individuals who are available for study in preparation fo entering the labor market, (2) the department of a high school use exclusively or principally for providing vocational education to per sons who are available for study in preparation for entering th labor market, or (3) a technical or vocational school used exclusive ly or principally for the provision of vocational education to per sons who have completed or left high school and who are availabl for study in preparation for entering the labor market. In order fo a nonpublic school to be a qualified school, it must be exempt from income tax under section 501(a).

The certification is performed by the school participating in th cooperative education program. After initial certification, an indi vidual remains a member of the targeted group only while he o she continues to meet the program participation, age, and degre status requirements of (a), (b), and (c), above.

(7) Economically disadvantaged former convicts

Any individual who is certified by the designated local employ ment agency (a) as having at some time been convicted of a felony under State or Federal law, (b) as being a member of an economi cally disadvantaged family, and (c) as having been hired within five years of the later of release from prison or date of conviction is an eligible employee for purposes of the targeted jobs credit.

(8) AFDC recipients and WIN registrants

Any individual who is certified by the designated local employment agency (a) as being eligible for Aid to Families with Dependent Children and as having continually received such aid during the 90 days before he or she was hired by the employer or (b) as having been placed in employment under a work incentive program established under section 432(b)(1) or 445 of the Social Security Act is an eligible employee for purposes of the targeted jobs credit.

(9) Economically disadvantaged summer youth employees

In general, the ninth targeted group consists of youths who are certified by the designated local agency as being 16 or 17 years of age on the hiring date and a member of an economically disadvantaged family and who perform services in any 90-day period between May 1 and September 15. However, under the 1984 Act, an otherwise eligible youth must be aged 16 or 17 on May 1 of the calendar year concerned, rather than on the hiring date, if the hiring date was before May 1. Thus, a youth who is 17 when hired for summer employment, but who turns 18 before May 1, is not to be treated as a qualified summer youth under the 1984 Act. The 1984 Act amendment applies to individuals who begin work for the employer after December 31, 1984.

As stated above, a youth must perform services in a 90-day period between May 1 and September 15 to be eligible for certification as an economically disadvantaged summer youth employee. However, a youth will not be certified as such if he or she was an employee of the employer prior to this 90-day period. With respect to any particular employer, an employee can qualify only one time for this summer youth credit. If, after the end of the 90-day period, the employer continues to employ a youth who is certified during the 90-day period as a member of another targeted group, the limit on qualified first-year wages takes into account wages paid to the youth while he or she was a qualified summer youth employee.

Definition of wages

In general, wages eligible for the credit are defined by reference to the definition of wages under FUTA in Code section 3306(b) except that the dollar limits do not apply. Because wages paid to economically disadvantaged cooperative education students and to certain agricultural and railroad employees are not FUTA wages, special rules are provided for these wages.

Wages may be taken into account for purposes of the credit only if more than one-half of the wages paid during the taxable year to an employee are for services in the employer's trade or business. The test as to whether more than one-half of an employee's wages are for services in a trade or business is applied to each separate employer, without treating related employers as a single employer.

Wages for purposes of the credit do not include amounts paid to an individual for whom the employer is receiving payments for on-the-job training under a Federally funded program.

Other rules

The 1984 Act simplified the income tax credit mechanism. Under the Act, business income tax credits, including the targeted jobs credit, are combined into one general business tax credit. The general business credit is allowable against 100 percent of the first $25,000 of tax liability remaining after other nonrefundable credits have been taken. To prevent taxpayers from paying no tax by reason of the general business credit, any remaining credit is allowable against 85 percent of remaining tax liability over $25,000. The credit is used on a first-in, first-out basis with a three-year carryback and 15-year carryforward period.

All employees of all corporations that are members of a controlled group of corporations are to be treated as if employees of the same corporation for purposes of determining the years of employment of any employee and wages for any employee up to $6,000. Generally, under the controlled group rules, the targeted jobs credit allowed the group is the same as if the group were a single company. A comparable rule is provided in the case of partnerships, proprietorships, and other trades or businesses (whether or not incorporated) which are under common control, so that all employees of such organizations generally are to be treated as if they were employed by a single person. The amount of targeted jobs credit allowable to each member of the controlled group is its proportionate share of the wages giving rise to the credit.

No credit is available for the hiring of certain related individuals (primarily dependents or owners of the employer). The credit is also not available for wages paid to an individual who was employed by the employer at any time during which the individual was not a certified member of a targeted group.

The 1984 Act provides that, under regulations prescribed by the Treasury, the determination of the credit for wages paid by a successor employer is to be made in the same manner as if the wages were paid by the predecessor employer. This clarifying amendment applies to individuals who begin work for the employer after July 18, 1984 (the date of enactment of the 1984 Act).

Under the 1984 Act, the credit is allowed for remuneration paid by an employer to an employee for services performed for a person other than the employer only if the amount reasonably expected to be received by the employer from the recipient of the services exceeds the remuneration paid by the employer to the employee. This rule is intended to prevent employers from lending or donating the services of individuals on their payroll to tax-exempt or other organizations that would not have had sufficient tax liability to take advantage of the credit had they hired the individuals directly. This rule applies to individuals who begin work for the employer after December 31, 1984.

Requirements for reports from executive agencies

The Revenue Act of 1978 (sec. 554) required the Secretary of the Treasury and the Secretary of Labor jointly to submit to the Congress a report on the effectiveness of the targeted jobs credit in improving the employment situation of the targeted groups and on the types of employers claiming the credit. (The report also was to evaluate the new jobs credit which was in effect during 1977 and 1978.) The report was required to be submitted by June 30, 1981.

TEFRA (sec. 233(e)(2)) requires the Secretary of Labor to report each year to the Congress on the results of testing required to assess the accuracy of the certification system. The first report was required by December 31, 1983.

Neither of the reports described above has yet been submitted to the Congress.

Authorization for administrative expenses

TEFRA authorized the appropriation of such sums as may be necessary for the expenses of administering the certification system and of providing publicity regarding the targeted jobs credit to employers. The 1984 Act extended the authorization for appropriations for administrative expenses to fiscal year 1985.

Participation in Targeted Jobs Credit Program

As indicated in Appendix Table A, economically disadvantaged youths aged 18 through 24 accounted for 58.3 percent of the total 563,381 jobs credit certifications for fiscal year 1984. The next largest targeted group participation was by AFDC recipients and WIN registrants, who accounted for 15 percent of total certifications in fiscal year 1984.

Total certifications more than doubled to 431,182 in fiscal year 1983 over fiscal year 1982 certifications (202,261). The fiscal year 1984 total was 30.7 percent greater than the fiscal year 1983 total. Appendix Table B shows the total jobs credit vouchers and certifications for fiscal years 1982 through 1984.

III. DESCRIPTION OF S. 1250 AND SOME OTHER PROPOSALS RELATING TO THE TARGETED JOBS CREDIT

Explanation of S. 1250

S. 1250 (sponsored by Senators Heinz, Domenici, Boren, Symms Heflin, Grassley, Baucus, Matsunaga, and others) would extend the targeted jobs tax credit for five more years. Under the bill, the credit would be available for qualified wages paid to individuals who begin work for the employer on or before December 31, 1990 Thus, if an individual begins work on December 31, 1990, the employer would be permitted to claim the credit for qualified first year and qualified second-year wages paid to the individual for services performed in 1991 and 1992, respectively.

S. 1250 would also make three changes in the targeted jobs credit eligibility rules. First, the bill would liberalize the requirements for membership in the qualified vocational rehabilitation referral targeted group: under the bill, the credit would be available for wages paid to an otherwise qualified individual who is certified to be eligible to receive rehabilitative services; the present law requirement that the individual have completed or be currently receiving rehabilitative services would be eliminated. Second, the bill would liberalize the requirements for members in the SSI recipient targeted group: under the bill, a recipient must be certified as receiving SSI benefits in the 120-day period ending on the hiring date, rather than in the 60-day period ending on that date that is specified under present law, in order to qualify for the credit. Finally, the bill would require that, for wages paid to a general assistance recipient to qualify for the credit, the recipient must be certified as receiving assistance under a qualified general assistance program for any period of not less than 60 days ending within the 180-day period ending on the hiring date (rather than, as under present law, any period of not less than 30 days ending within the 60-day period ending on the hiring date).

Effective date.—The bill would apply to individuals beginning work for an employer after December 31, 1985, in taxable years ending after that date.

Other Proposals

Administration Proposal

Under the President's May 1985 tax reform proposals, the targeted jobs tax credit would expire as scheduled on December 31, 1985.

Ways and Means Committee Action

On November 17, 1985, the House Ways and Means Committee tentatively approved a two-year extension of (through December 31, 1987), and several modifications to, the targeted jobs credit as part of its markup of tax reform proposals. The modifications are as follows: First, the credit for wages paid in the second year of a targeted individual's employment would be eliminated. Second, the credit generally would be reduced from 50 percent to 40 percent of qualified first-year wages (generally reducing the maximum first-year credit from $3,000 to $2,400, and from $4,500 for the present maximum two-year credit). The present law credit for economically disadvantaged summer youth employees (85 percent of up to $3,000 of qualified first-year wages) would not be changed, however. Third, the credit would not be available for wages paid to persons whose employment lasts less than fourteen days.

APPENDIX: DATA ON TARGETED JOBS CREDIT PARTICIPATION

Table A.—Vouchers and Certifications by Targeted Group, Fiscal Year 1984 [1]

Targeted group	Vouchers		Certification	
	Number	Percent [2]	Number	Percent [2]
Economically disadvantaged youths 18–24	619,147	46.3	328,213	58.3
Economically disadvantaged Vietnam-era veterans	76,001	5.7	29,000	5.1
Economically disadvantaged former convicts	75,322	5.6	27,278	4.8
Economically disadvantaged summer youth	61,876	4.6	30,137	5.3
General assistance recipients	92,600	6.9	24,101	4.3
SSI recipients	3,755	0.1	1,620	0.1
AFDC recipients and WIN registrants	313,493	23.4	84,769	15.0
Vocational rehabilitation referrals	95,443	7.1	38,263	6.8
Total [3]	1,337,637	100.0	563,381	100.0

[1] A voucher is a preliminary determination that an individual is a member of a targeted group. A certification is a final eligibility determination, issued upon the request of a hiring employer.

[2] Note: Due to rounding, percentages may not add to totals.

[3] Does not include certifications of economically disadvantaged cooperative education students. Such certifications are issued by participating schools rather than State employment security agencies which issue certifications for all other targeted groups.

Source: U.S. Department of Labor.

Table B.—Total Vouchers and Certifications, Fiscal Years 1982–1984

Fiscal year	Total vouchers	Total certifications
1982	624,687	202,261
1983	1,286,947	431,182
1984	1,337,637	563,381

Source: U.S. Department of Labor.