[JOINT COMMITTEE PRINT]

PRESENT LAW AND ISSUES RELATING TO THE TARGETED JOBS TAX CREDIT (H.R. 452, H.R. 815, AND H.R. 2098)

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS

ON JUNE 6, 1989

PREPARED BY THE STAFF

OF THE

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INTRODUCTION

The Subcommittee on Select Revenue Measures of the House Committee on Ways and Means has scheduled a public hearing on June 6, 1989 to review the targeted jobs tax credit, which is scheduled to expire after December 31, 1989.

The first part of the pamphlet [1] is a summary. The second part discusses the legislative history of the targeted jobs credit and the present targeted jobs credit rules. Part three provides a description of House bills (H.R. 452, H.R. 815, and H.R. 2098) introduced this Congress relating to the credit. Part four contains a discussion of the issues related to the credit in consideration of its extension. Finally, an Appendix presents Department of Labor data on targeted jobs credit participation for fiscal years 1982 through 1987.

[1] This pamphlet may be cited as follows: Joint Committee on Taxation, *Present Law and Issues Relating to the Targeted Jobs Tax Credit (H.R. 452, H.R. 815, AND H.R. 2098)* (JCS-13-89), May 24, 1989.

I. SUMMARY

Present Law

Tax credit provisions

The targeted jobs tax credit is available on an elective basis for hiring individuals from nine targeted groups. The targeted groups are: (1) vocational rehabilitation referrals; (2) economically disadvantaged youths aged 18 through 22; (3) economically disadvantaged Vietnam-era veterans; (4) Supplemental Security Income (SSI) recipients; (5) general assistance recipients; (6) economically disadvantaged cooperative education students aged 16 through 19; (7) economically disadvantaged former convicts; (8) Aid to Families with Dependent Children (AFDC) recipients and Work Incentive (WIN) registrants; and (9) economically disadvantaged summer youth employees aged 16 or 17. Certification of targeted group membership is required as a condition of claiming the credit.

The credit generally is equal to 40 percent of the first $6,000 of qualified first-year wages paid to a member of a targeted group. Thus, the maximum credit generally is $2,400 per individual. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 40 percent of up to $3,000 of wages, for a maximum credit of $1,200.

The credit is not available for wages paid to a targeted group member unless the individual either (1) is employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees), or (2) has completed at least 120 hours of work performed for the employer (20 hours in the case of economically disadvantaged summer youth employees). Also, the employer's deduction for wages must be reduced by the amount of the credit claimed.

The credit is available with respect to targeted-group individuals who begin work for the employer before January 1, 1990.

Authorization of appropriations

Present law also authorizes appropriations for administrative and publicity expenses relating to the credit through September 30, 1989. These monies are to be used by the Internal Revenue Service (IRS) and Department of Labor to inform employers of the credit program and for administrative expenses.

Summary of the bills

H.R. 453 (Mr. Conte).—The bill would expand the number of eligible groups by creating a category of eligible older employees.

H.R. 815 (Mr. Rangel).—The bill expands the credit by extending the credit to employers of qualified dropout trainees. The bill also creates a tax credit for contributions to a qualified dropout trainee program. Such programs would be designated to counsel and train school dropouts.

H.R. 2098 (Mr. Rangel).—The bill would extend the targeted jobs credit for three years and make other changes. First, it would increase the age limit for economically disadvantaged youths from age 23 to age 25. Second, it would create a new category of eligible employees for economically disadvantaged drug rehabilitation referrals.

II. BACKGROUND AND PRESENT LAW

A. Legislative Background

Extension of credit, authorization of appropriations

The targeted jobs tax credit was enacted in the Revenue Act of 1978 to replace an 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 (through 1982), the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) for two years (through 1984), and the Deficit Reduction Act of 1984 (the 1984 Act) for one year (through 1985).

The Tax Reform Act of 1986 extended the targeted jobs credit for three additional years (through 1988), with modifications. The Technical and Miscellaneous Revenue Act of 1988 (TAMRA) extended the credit with modifications for one additional year (through 1989).

TEFRA authorized appropriations for the expenses of administering the system, for certifying targeted group membership, and for providing publicity to employers regarding the targeted jobs credit. The 1984, 1986, and 1988 Acts successively extended the authorization for appropriations for administrative and publicity expenses through fiscal year 1989.

Modification of credit

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

The 1986 Act limited the extended credit in three respects: (1) a 25-percent credit for qualified wages paid in the second year of a targeted-group individual's employment was repealed; (2) a 50-percent credit for qualified first-year wages generally was reduced to a 40-percent credit (except that the credit allowed for wages of economically disadvantaged summer youth employees was retained at 85-percent of up to $3,000 of qualified first-year wages); and (3) no wages paid to a targeted-group member are taken into account for credit purposes unless the individual either (a) is employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees), or (b) has completed at least 120 hours of work performed for the employer (20 hours in the case of economically disadvantaged summer youth employees). Under the 1986 Act, the modified credit is available for wages paid to targeted-group individuals who begin work for an employer after December 31, 1985 and before January 1, 1989.

As a result of the Omnibus Budget Reconciliation Act of 1987, the credit is no longer available for wages paid to a targeted-group individual who performs the same or substantially similar services as an employee participating in, or affected by, a strike or lockout.

Two modifications were also made to the credit in TAMRA: (1) the category of economically disadvantaged youth was restricted to include employees age 18 to 22 rather than employees age 18 to 24; and (2) the credit percentage for disadvantaged summer youth employees was reduced from 85 percent to 40 percent. TAMRA also extended the credit to individuals who begin work for an employer before January 1, 1990.

B. 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 is equal to 40 percent of qualified first-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.

No more than $6,000 of wages during the first year of employment may be taken into account with respect to any individual. Thus, the maximum credit per individual is $2,400 in the first year of employment.

With respect to economically disadvantaged summer youth employees, the credit is equal to 40 percent of up to $3,000 of qualified first-year wages, for a maximum credit of $1,200.

The 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 that he was a member of such a group 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). 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:

(1) Vocational rehabilitation referrals

Vocational rehabilitation referrals are those individuals who have a physical or mental disability which 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 23 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 these purposes, 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, but 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 any 30 days or longer period which 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, vouchers or scrip based on need. These programs are referred to by a wide variety of names, including home relief, poor relief, temporary relief, and direct relief. Because of the wide variety of such programs, Congress provided that a recipient will be an eligible employee only after the program has been designated by the Secretary of the Treasury as a program which provides money payments, vouchers or scrip to needy individuals. Certification is be performed by the designated local agency.

(6) Economically disadvantaged cooperative education students

The sixth targeted group consists of youths who (a) actively participate in qualified cooperative education programs, (b) have attained age 16 but have not attained age 20, (c) have not graduated from high school or vocational school, and (d) are members of economically disadvantaged families. The definitions of a qualified cooperative education program and a qualified school are similar to those used in the Vocational Education Act of 1963. Thus, a qualified cooperative education program means a program of vocational education for individuals who, through written cooperative arrangements between a qualified school and one or more employers, receive instruction, including required academic instruction, by alternation of study in school with a job in any occupational field, but only if these two experiences are planned and supervised by the school and the employer so that each experience contributes to the student's education and employability.

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

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

(7) Economically disadvantaged former convicts

Any individual who is certified by the designated local employment agency (a) as having at some time been convicted of a felony under State or Federal law, (b) as being a member of an economically 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 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 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 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 section 3306(b) of the Code, 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. Also the credit is not available to wages paid to an individual who performs the same or substantially similar services as an employee participating in, or affected by, a strike or lockout.

Minimum employment period

The credit is not available for wages paid to a targeted group member unless the individual either (1) is employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees), or (2) has completed at least 120 hours of work performed for the employer (20 hours in the case of economically disadvantaged summer youth employees).

Other rules

All employees of all corporations that are members of a controlled group of corporations are to be treated as if they were 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 taxpayer). 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 credit is allowed for remuneration paid by an employer to an employee for services performed by 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.

Requirements for reports from executive agencies

The Revenue Act of 1978 (sec. 554) required the Secretary of 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 submitted in 1986.

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 most recent report was submitted in 1988.

Authorization for administrative expenses

Present law also authorizes 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. These monies are to be used by the Internal Revenue Service (IRS) and Department of Labor to inform employers of the credit progam.

C. Participation in Targeted Jobs Credit Program

As indicated in Appendix Table A, economically disadvantaged youths aged 18 through 24 accounted for 58.5 percent of the total 568,617 jobs credit certifications for fiscal year 1987. The next largest targeted group participation was by AFDC recipients and WIN registrants, who accounted for 17.3 percent of total certifications in fiscal year 1987.

Appendix Table B shows the total jobs credit vouchers and certifications for fiscal years 1982 through 1987. Total certifications more than doubled to 431,182 in fiscal year 1983 over fiscal year 1982 certifications (202,261). Certifications increased to 563,000 in 1984 and 622,000 in 1985. Certification data is not available for 1986 but certifications in 1987 totalled approximately 569,000.

III. INTRODUCED BILLS: H.R. 452, H.R. 815 and H.R. 2098

H.R. 452 (Mr. Conte)

H.R. 452 would expand the number of targeted groups eligible for the credit. Under the bill, a category of eligible older employers would be added. An eligible older employee would be defined as an individual (1) who is age 55 or older on the hiring date, (2) who has $20,000 or less of earned income in the year preceding the hiring date, (3) whose gross income from the individual's employer will not exceed $20,000 during the tax year for which the credit is determined and (4) whose wages are not subsidized, in whole or in part, under the Older American Community Service Employment Act.

Under the bill, where the individual is an officer or principal shareholder in the employing corporation, wages paid to that individual will not be eligible for the credit. Similarly, if a partnership or sole proprietorship is the employee and the individual is a partner or the sole proprietor, respectively, the wages paid to the individual will not be eligible for the credit. H.R. 452 would provide an exception for eligible older employees, from the prohibition on nonqualifying rehires currently in the credit.

H.R. 815 (Mr. Rangel)

H.R. 815 would also expand the number of targeted groups eligible for the credit. This bill would create a category of qualified dropout trainees. A qualified dropout trainee is an individual: (1) who is enrolled in and actively pursuing a training program under a qualified program or (2) who has been employed pursuant to a commitment made by the employer to employ a specified number of individuals who have completed training under such a program. The bill also would create a tax credit for contributions to a qualified program designed to counsel and train school dropouts.

The bill also would extend the expiration date of the credit for qualified dropout trainees for three years. The bill would be effective as of the date of enactment for taxable years ending after that date.

H.R. 2098 (Mr. Rangel and others)

H.R. 2098 would extend the targeted job tax credit for three 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, 1992. The bill would also extend the authorization for appropriation for administrative expenses through 1992.

The bill would make two changes to the targeted jobs tax credit rules. First, the age limit for economically disadvantaged youths would be raised from less than age 23 to less than age 25. Second, the bill would create a new category of qualified individuals. This new category would be economically disadvantaged drug rehabilitation referrals. A qualifying individual must (1) be a member of an economically disadvantaged family (as defined in the credit) and (2) must have completed a qualified drug rehabilitation program within three years of the hiring date. Completion for purposes of an outpatient program must involve at least 45 days participation by the individual. A qualified drug rehabilitation program means any drug rehabilitation program which is (a) an organized outpatient or inpatient program and (b) certified or licensed by a State.

The bill would be effective for individuals who begin work for the employer after December 31, 1989.

IV. ISSUES RELATING TO THE EXTENSION OF THE CREDIT

The targeted jobs tax credit was originally enacted in 1978 to replace an expiring credit for increasing employment. Since then, the TJTC has been extended and revised on several occasions. Over the past 10 years studies of the empirical effects of the credit have been performed that permit limited evaluation of the program. However, the numerous changes in the credit over time and problems with both the data and analysis may make exact conclusions from these studies about the effect of the credit as it currently functions difficult to derive. The following is a discussion of the impact of the targeted jobs tax credit on employment, earnings, training and turnover, as well as the operation and effectiveness of the credit.

A. Employment

In 1987, over 1.1 million members of targeted groups received vouchers and 568,000 received certifications. Some proponents point to these statistics as evidence of the credits effectiveness in providing jobs for targeted-group members. Opponents respond that many of these certified employees would have obtained jobs without the credit. In addition, those certified for the TJTC may have displaced other targeted and non-targeted individuals from the workforce with no resulting net effect on total employment.

Targeted groups

Only a small percentage of individuals eligible for certification are certified. One study estimates that less than 7 percent of eligible disadvantaged youth hired in 1983 had the credit claimed for them.[2] Another study estimates that only 1.3 percent of employees in low-wage industries were certified, furthermore only 3.4 percent of adults below the poverty level were certified.[3]

If those certified are, on average, as employable as TJTC eligibles who are not certified, then one can view the certified group as a random sample of the total eligible population. In this view, the employment rate of certified individuals in the absence of the credit would be roughly the same as the current employment rate of noncertified eligible individuals. This argument implies that any net job creation is distributed among both noncertified and certified individuals.

Those vouchered or certified in the TJTC program also may be more qualified and more motivated, on average, than eligible individuals who are not certified. Several studies generally have concluded that individuals certified under the TJTC program tend to

[2] Christensen, Sandra, *The Targeted Jobs Tax Credit,* U.S. Congressional Budget Office, memo, May 1984, p. 10.

[3] Macro Systems, Inc., *Final Report on the Aggregate Employment Effects of the Targeted Jobs Tax Credit Program* ("Employment Report"), U.S. Department of Labor, 1986, p. III-16.

be the more employable segments of the targeted population.[4] Critics cite these studies as proof that certified individuals would have been more likely than those not certified to have been employed regardless of the credit. Thus, the observed effect of the TJTC program on employment found in many studies may overstate the actual effect on target-group employment properly attributable to the TJTC program.

Proponents of the TJTC program argue that the selection of more employable TJTC eligibles is of limited importance. They dispute the findings in the studies cited above because of certain inconsistencies and, in addition, argue that even the more employable segments of the target population deserve benefit from the employment incentives that the TJTC provides.[5]

Displacement of other workers

Detractors of the TJTC argue that the TJTC induces no net increase in total employment. They argue further that the TJTC may not increase the employment of targeted-group individuals. Because the TJTC certified are such a small portion of the target population and of the low-wage labor force, employers do not need to alter their hiring decisions, either in terms of total employees or in favor of targeted individuals, in order to certify the current level of TJTC eligibles.

Critics of the displacement analysis argue that the TJTC may create a large number of new jobs for target-group individuals, even if some displacement of non-targeted employees occurs. The credit provides a strong incentive for employers to select individuals who are eligible for certification and provide them with useful job skills they may have lacked, thereby allowing firms to hire workers who otherwise would not have been hired. The TJTC may also increase total employment because the credit permits firms to hire targeted individuals for low productivity jobs that otherwise could not have been filled without the subsidy.

Supporters of the TJTC argue that even if there is a significant amount of displacement of other workers by TJTC employees, the program may still be considered a success. In this view, the role of the TJTC is just not to expand total employment, but rather to allow the most disadvantaged members of society to enter the labor force and develop useful job skills. They argue that one purpose of the TJTC, therefore, is to redistribute the burden of unemployment so that it is not disproportionately borne by members of the targeted groups.

Several empirical studies have attempted to answer specifically whether the TJTC program has increased employment of targeted

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[4] Macro Systems, Inc., (1) Impact Study of the Implementation and Use of the Targeted Jobs Tax Credit: Overview and Summary ("Overview"); (2) Final Report on the Effects of the Targeted Jobs Tax Credit Program on Employers ("Employers Report"); (3) Final Report on the Short-term Net Impact of the Targeted Jobs Tax Credit Program on Disadvantaged Populations ("Short Term Impact Report"); (4) Final Process Analysis Report on the Implementation and Use of the Targeted Jobs Tax Credit Program ("Process Report"); and (5) Final Report on the Administrative Cost-Effectiveness of the Targeted Jobs Tax Credit as a Placement Tool for the Employment Service ("Cost-Effectiveness Report"), U.S. Department of Labor, 1986. Also, Christensen, 1984, pp. 22-23.

[5] *See,* Macro Systems, Inc., "Employer Report", Part VII, and the "Short-Term Impact Report" discussion of white male TJTC participants.

groups and whether other workers are displaced by the TJTC workers.[6] These studies have examined, in various ways, aggregate employment, employment growth, and comparisons of participants and eligible non-participants in the TJTC program to determine the effect on targeted employment in the period 1980 through 1984. Although the results permit a broad range of interpretation, they generally suggest that the TJTC has increased the employment of targeted groups somewhat, but by less than the total number of certified individuals. One set of studies concludes that the total net new job creation amounted to between 5 and 30 percent of total certifications, implying that there is generally some net increase in the employment of targeted workers.[7]

Critics of the empirical studies point out, however, that the results are often not statistically significant and vary considerably among studies and specifications. Further, the studies permit a wide range of interpretation regarding the effects of the TJTC program both on the employment of targeted group individuals and the population as a whole. It is difficult, they contend, to reject on either statistical or methodological grounds the view that the credit may have had no effect on total employment and only a small effect on targeted employment.[8] Some of the implications of the statistical studies may cast doubt on their reliability as well. For example, one study that generally shows an increase in total employment due to the TJTC program suggests that the TJTC increased employment of the non-targeted population more than it did the employment of the targeted population.[9]

B. Earnings

Proponents of the TJTC point out two ways that the TJTC might increase wages of target-group members. First, employers, in order to receive the credit, will pay higher wages in order to attract target-group members. Second, by increasing employment experience and on-the-job training, TJTC employees will become more productive and achieve higher wages. Alternatively some proponents argue that the effect of TJTC on wage rates and earnings are irrelevant. They contend that the TJTC is intended primarily to increase employment opportunities for disadvantaged individuals regardless of wage levels.

It is possible, however, that the TJTC may not increase the earnings of target-group workers. First, if TJTC employees displace other target-group workers, any increase in earnings of TJTC employees may be offset by a decline suffered by target group workers not involved in the program. Second, potential employees may be stigmatized by their participation in the TJTC program. Employers may reduce their evaluation of an applicant's ability and productiv-

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[6] See Macro Systems Inc., "Employers Report"; "Short-term Report"; and *Final Report on the Aggregate Employment Effects of the Targeted Jobs Tax Credit Program* ("Aggregate Employment Report"), U.S. Department of Labor; 1986, and Christensen, 1984.

[7] Macro Systems Inc., "Overview", p. VII-2. See, Macro Systems Inc., "Employer Report", "Short-Term Impact Report", and "Aggregate Employer Report", for details. See, also, Christensen.

[8] Christensen, pp. 25-28 and 34-46.

[9] Macro Systems, Inc., "Aggregate Employment Report", part V.

ity due solely to his participation in the TJTC program, thus leading to lower wages.

The evidence on the earnings of participating individuals in the TJTC program is mixed. The studies rely on a comparison of non-participating eligible individuals to those who participate in the TJTC. One study finds that, in general, vouchering reduces the mean wage rate of those working, but increases average earnings of the vouchered population due to increased employment.[10] In this study, certification generally appeared, with exceptions, to improve the average earnings and wages of TJTC employees.

Critics point out that the interpretation of the results depend on the comparison sample being truly similar to the TJTC participants. As the authors of the studies themselves admit, unobserved differences between the two groups may significantly affect a robust interpretation of the outcome.[11] In addition, depending on which target-group is being analyzed, the results are often not statistically significant, and vary considerably from group to group. Lastly, none of the studies are capable of addressing the impact of the TJTC program on the wages and earnings of the non-participant population. Thus, critics conclude, the studies are not useful for determining the effect of the TJTC on earnings.

C. Training and Turnover

The targeted jobs tax credit may have an impact on both the job training and turnover rate of target-group individuals. It is argued that as the credit increases employment of target-group individuals, a larger number will be exposed to on-the-job training. Also, employers in competition for eligible employees may attempt to attract these individuals by offering jobs that will generate increased job skills for the employee. Others argue that jobs offered by employers who use the TJTC intensively are low-skill jobs providing little useful training. They point to the lack of evidence of job creation in more skilled jobs.

Critics argue that the TJTC may encourage increased turnover of employees. Because the credit is generally applicable only to the first $6,000 in wages, the employer does not have any special incentive to retain the TJTC worker beyond this point. The employee may be more valuable to a different employer since the new employer would be able to use the credit while the old employer would not. Also, the employer has an incentive to replace the TJTC worker with a new TJTC worker in order to collect the credit on the new worker. Others argue that incentives for employee turnover are small relative to the costs of hiring and training associated with turnover.

Once again, empirical studies provide mixed results on the effects of employee turnover. One study based on employer data finds on average, no effect of TJTC on employee turnover.[12] However,

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[10] Macro Systems, Inc., "Short-Term Impact Report", and "Overview", pp. V 3-5. Similar results for earnings are also reported in Edward Lorenz, *The Targeted Jobs Tax Credit in Maryland and Missouri: 1982-1987*, National Commission for Employment Policy, Washington, D.C., 1988.

[11] Macro Systems, Inc., "Overview", p. V-5.

[12] Macro Systems, Inc., "Employer Report", pp. VI 2-8.

comparison samples of eligible TJTC participants and non-participants indicate that turnover is often higher for those in the TJTC program.[13] There is currently little evidence, however, to connect explicitly employee turnover with the expiration of the eligible wages.

D. Operation and Effectiveness

Certification method

Generally, wages paid to a targeted individual do not qualify for the credit unless the individuals' employer received or, more frequently, requested in writing from the local designated agency a certification on or before the date the individual begins work. If the targeted individual has a voucher the deadline for requesting certification is extended until five days after the individual begins work.

It is common practice for employers to request certification after the individual is hired but before the day the individual begins work. Some employers request certification for all new employees, but more often new hires are screened for eligibility before the employer requests certification. This screening often may take place after the individual is hired.

Some employers who use the TJTC hire consulting firms, known as management assistance companies, to assist them in obtaining TJTC certification for new employees. Many of the management assistance companies perform screening immediately after the hiring decision has been made, often through a short phone interview with the new hires. These companies then process the request, and may also provide such additional services as assisting the new hire in arranging for the certification interview, and various follow-up activities. They are typically compensated as a percentage of credit obtained or on a per certification basis.

A 1985 survey of large users of the TJTC finds that 75 percent of these employers use management assistance companies. Only 23 percent of the firms in the survey indicate that they screen applicants for TJTC eligibility before the hiring decision is made. In a 1986 survey of 13 management assistance companies, 10 companies indicate that 95 percent of their clients screen for TJTC eligibility after the hiring decision is made.[14]

Some suggest that the use of post-hire screening greatly reduces the impact of the TJTC program. Managers making hiring decisions without knowledge of the applicant's TJTC status may still be able to obtain the credit on the applicant. This permits employers, often as deliberate policy, to benefit from the credit without altering hiring decisions in favor of target-group individuals.

Supporters of these practices argue that employers still have incentives to hire target-group employees, even with post-hire screening. The TJTC encourages employers to recruit and hire segments of the population who are likely to include members of a target-group, even though the employer may not know whether any specific hire is a TJTC eligible. The desire to utilize the credit encour-

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[13] Macro Systems, Inc., "Short-Term Impact Report".
[14] Macro Systems, Inc., "Employer Report", part VIII.

ages employers to expand hiring from the pool of TJTC target-groups. In addition, the value of the credit that the firm receives may permit an expansion of business and jobs available for likely target-group individuals.

One report suggests that the growth in the use of management assistance companies and post-hire screening has reduced the impact of the TJTC program and has increased the windfall to employers.[15] Others contend that management assistance companies permit more extensive utilization of the credit by employers. By providing cost effective support services consultants reduce the administrative burden on employers and allow more employers to participate in the TJTC program.

Vouchers

Not all companies engage exclusively in post-hire screening; instead, some actively recruit potential TJTC eligibles.[16] Approximately, 1.1 million individuals in 1987 obtained vouchers, mostly from employment services, indicating their eligibility for the credit. Although the number of vouchers issued is large, only a small percentage of target-group individuals obtain them. Thus, most TJTC eligible individuals that an employer interviews will not have a voucher.

Some argue that the TJTC would have a larger impact on targeted groups if greater use of vouchered individuals and employment service referrals were made. Others believe that vouchers are not an effective means for encouraging target-group employment because they stigmatize the holder. In this view, employers reduce their evaluation of a job applicant upon discovering the potential employee is a member of a target-group. The change in the employer's perceptions outweighs the advantages of the credit and, thus, the employer is more likely to reject the applicant or pay lower wages than if the voucher had not been presented.

Two experiments on welfare recipients, in which applicants were trained to announce their TJTC eligibility, found that the applicants who announced were less likely to be hired than those who did not.[17] On the other hand, a separate analysis limited to disadvantaged youths suggests that TJTC eligibility increased hiring priorities of employers. It is hypothesized that being a disadvantaged youth may be less stigmatizing than being a welfare recipient.[18]

Employer utilization

A 1982 survey indicated that the utilization of the TJTC is highly uneven among employers. A small number of firms accounted for a large share of certifications, with certain retail (eating and drinking establishments) and hotel and motel corporations predominant.[19] Overall, the participation rate of employers was low.

[15] Macro Systems, Inc., "Overview", p. III-4.
[16] Arwady, Joseph, *Wage Subsidies and Jobs for the Disadvantaged: Applying the Targeted Jobs Tax Credit in an Operating Environment.* Philadelphia: U. of Pennsylvania, 1988.
[17] Burtless, Gary, "Are Targeted Wage Subsidies Harmful? Evidence from a Wage Voucher Experiment," *Industrial and Labor Relations Review* (October 1985), pp. 45-57.
[18] Macro Systems, Inc., "Employer Report", p. IX-7.
[19] Macro Systems, Inc., "Overview", p. III-2.

Some supporters of TJTC argue that the participation rate of employers ought to be increased in order to make the credit more effective. Increased participation by employers would expand the employment opportunities available to target-group individuals. Reducing the complexity and administrative burdens for employers along with increasing employer awareness of the program would broaden the base of employer participants. The expanded use of management assistance companies, for example, might broaden the base of employer usage of the credit by reducing the administrative costs to any particular employer.

Others suggest that the current distribution of employer participation represents an efficient use of the credit. Firms who use the credit must incur the fixed costs of learning about the program and establishing and implementing the administrative procedures necessary to obtain certifications. Thus, only firms with the need to fill a sufficiently large pool of jobs typically appropriate for the targeted group will incur these fixed costs. It is argued, however, that once these fixed costs have been incurred, large users of the credit respond more to the incentives provided by the TJTC than smaller users.

Incidence of the benefit of the credit

The TJTC is intended to increase the employment and earnings of target-group members. The credit provides a tax benefit to employers to increase their employment of target-group individuals and, perhaps, to increase the wages of these individuals above what they would have received without the credit. The benefit of the credit provided to employers, in this view, is passed on to the employee.

Critics of the credit contend that a significant portion of the benefit of the credit accrues to the employer while target-group members benefit little if at all. It is argued that employers do little to change their employment practices in either hiring or pay to target-group members. Much of the credit goes to employers who would have made identical hiring, pay, and promotion decisions irrespective of the existence of the credit. This criticism is strongest in cases where the screening for TJTC eligibility is performed after the hiring decision has been made. Also, if reduced productivity of TJTC employees results in lower wages paid to employees, thus then the benefit of the credit accrues to the employer.

Supporters argue, that even if there is no observed differences in the wages of TJTC employees and other similar employees, that the credit still provides benefits to the employees. Employers need the credit to overcome perceptions that target-group individuals may have low productivity and to encourage their hiring. The credit may also compensate the employer for actual lower productivity of certain targeted individuals. Also, the credit allows employers to spend additional money and effort on recruiting and hiring target-group individuals. Finally, even in the cases of screening after hiring, the credit encourages employers to recruit and attract applicants that are likely to be eligible for TJTC.

Choice of target groups

The list of target groups has evolved and expanded over the life of the TJTC program. The choice of which groups to include involve decisions concerning which segments of the population are most in need of this type of assistance and about the trade-offs among various goals of the program.

In general, it is desirable to identify groups in the population that tend to be perceived as having fewer job skills than members of the population as a whole. The TJTC, in this view, can compensate for the poor job market perceptions and expand job market opportunities for these groups. In addition, if the goal is to affect the concentration of low earnings or unemployment among different demographic segments, the TJTC can be used to assist groups which disproportionately bear the burdens of these problems.

If the definition of targeted groups is tightly drawn then the members of these groups are more likely to receive the benefit of the credit. Smaller target groups may encourage employers to more actively search out targeted individuals. Larger groups may instead allow employers to hire members of eligible groups which would have been hired without the credit. More broadly defined groups also may result in a greater diversity of abilities among targeted group individuals which would allow employers to simply hire only the most capable and ignore the most disadvantaged.

Additional segments of the population, others believe, are at least as disadvantaged in the job market as those already covered and, therefore, are deserving of eligibility in the TJTC. In addition, the broader the coverage of the TJTC, the easier it may be for employers to choose target- group members, thus a greater number of individuals benefit from the program. If it were easier for employers to hire target-group members, then, in this view, more employers would be willing to incur the fixed costs of accommodating the TJTC incentives into their regular hiring processes.

APPENDIX: DATA ON TARGETED JOBS CREDIT PARTICIPATION, FISCAL YEARS 1982-1987

Table A.—Vouchers and Certifications by Targeted Group, Fiscal Year 1987[1]

Targeted group	Vouchers		Certification [2]	
	Number	Percent of total	Number	Percent of total
Economically disadvantaged youths 18–24	551,179	48.3	332,712	58.5
Economically disadvantaged Vietnam-era veterans	49,429	4.3	21,478	3.8
Economically disadvantaged former convicts	73,278	6.4	30,417	5.4
Economically disadvantaged summer youth	36,909	3.2	20,677	3.6
General assistance recipients	55,514	4.9	21,138	3.7
SSI recipients	7,097	0.6	4,449	0.8
AFDC recipients and WIN registrants	280,192	24.5	98,298	17.3
Vocational rehabilitation referrals	89,241	7.8	39,448	6.9
Total[3]	1,143,452	100.0	568,617	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] 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.

[3] Due to rounding, percentages may not add to totals.

Source: U.S. Department of Labor.

Table B.—Total Vouchers and Certifications, Fiscal Years 1982–1987

Fiscal year	Total vouchers (thousands)	Total certifications[1] (thousands)
1982	625	202
1983	1,287	431
1984	1,338	563
1985	1,343	622
1986	(2)	(2)
1987	1,143	569

[1] 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.

[2] Not Available.

Source: U.S. Department of Labor.

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