

**DESCRIPTION OF PROPOSALS
RELATING TO
THE TARGETED JOBS TAX CREDIT**

Scheduled for a Hearing

Before the

SUBCOMMITTEE ON SELECT REVENUE MEASURES

of the

COMMITTEE ON WAYS AND MEANS

On September 29, 1994

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 September 29, 1994, to review the targeted jobs tax credit which is scheduled to expire after December 31, 1994.

This document¹, prepared by the staff of the Joint Committee on Taxation, provides a description of present law and legislative proposals relating to the targeted jobs tax credit.

Part I of the document is a summary of present law. Part II discusses the legislative background and the targeted jobs tax credit rules. Part III describes House legislative proposals (103rd Congress) relating to the targeted jobs tax credit. Finally, an Appendix presents Department of Labor data on targeted jobs tax credit participation for calendar year 1992.

¹ This document may be cited as follows: Joint Committee on Taxation, Description of Proposals Relating to the Targeted Jobs Tax Credit (JCX-19-94), September 27, 1994.

I. SUMMARY

The targeted jobs tax credit (Code sec. 51) was enacted in the Revenue Act of 1978 to replace the expiring tax credit for increased employment (the "new jobs credit"). The targeted jobs tax credit was subsequently extended and revised numerous times. It is currently scheduled to expire after December 31, 1994.

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

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 is \$2,400 per individual in the first year of employment. 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 employer's deduction for wages must be reduced by the amount of the credit.

II. BACKGROUND AND PRESENT LAW

Legislative Background

The targeted jobs tax credit was enacted in the Revenue Act of 1978 as a substitute for the new jobs credit.² The targeted jobs tax credit, as initially enacted, provided a credit to employers of seven targeted groups. These groups were: (1) vocational rehabilitation referrals, (2) economically disadvantaged youths aged 18 to 25, (3) economically disadvantaged Vietnam-era veterans under the age of 35, (4) SSI recipients (individuals receiving Supplemental Security Income under Title XVI of the Social Security Act, including certain State supplements), (5) general assistance recipients, (6) economically disadvantaged former convicts hired within five years of the later release from prison or date of conviction, and (7) cooperative education students aged 16 to 19 who had not graduated from high school or vocational school. The maximum credit equaled 50 percent of the first \$6,000 of qualified first-year wages and 25 percent of the first \$6,000 qualified second-year wages paid to a targeted group individual. The employer's deduction for wages was reduced by the amount of the credit. The credit was effective for wages paid or incurred before January 1, 1982.

The Economic Recovery Tax Act of 1981 (ERTA) extended the credit to individuals who began work for the employer before January 1, 1983. Because of the two-year nature of the credit, it applied to wages paid in 1983 and 1984. ERTA also added new categories of individuals whose employment qualified for the credit: (1) involuntarily terminated Comprehensive Employment and Training Act (CETA) workers, (2) WIN registrants, and (3) AFDC recipients. Other major changes made in ERTA were limiting the credit to economically disadvantaged cooperative education students rather than all such students meeting the age requirements and the repeal of the age limit for Vietnam-era veterans.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) extended the credit to individuals who began work for the employer before January 1, 1985, and applied to wages paid through 1986. TEFRA also deleted CETA workers as a targeted group and added a new targeted group of economically disadvantaged summer youths aged 16 or 17. Employers of economically disadvantaged summer youths were eligible for a maximum credit of 85 percent of the first \$3,000 of qualified

² The new jobs credit was available in 1977 and 1978.

wages. The Deficit Reduction Act of 1984 (DEFRA) extended the credit to individuals who began work for the employer before January 1, 1986.

The Tax Reform Act of 1986 (TRA 1986) extended the credit to wages paid to targeted group individuals who began work for an employer after December 31, 1985 and before January 1, 1989. Major changes enacted in TRA 1986 included the elimination of the credit for second-year wages and a reduction in the first-year credit to 40 percent of the first \$6,000 of qualified wages.

The Technical and Miscellaneous Revenue Act of 1988 (TAMRA) extended the credit to eligible individuals who began work for an employer between January 1, 1989, and December 31, 1989. Major changes enacted in TAMRA were: (1) a reduction in the age limit for economically disadvantaged youth to ages 18-22 rather than 18-25 and (2) a reduction in the maximum amount of the credit for economically disadvantaged summer youth from 85 percent to 40 percent of the first \$3,000 of qualified wages.

The Omnibus Budget Reconciliation Act of 1989 (OBRA 1989), the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990), and the Tax Extension Act of 1991 extended the credit to eligible individuals who began work for the employer before October 1, 1990, January 1, 1992 and June 30, 1992. Most recently, the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) extended the credit to eligible individuals who begin work for the employer before January 1, 1995.

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 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.

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

In general, an individual is not treated as a member of a targeted group unless certification that the individual is a member of such a group is received or requested in writing by the employer from the designated local agency on or before the day on which the individual begins work for the employer. In the case of a certification of an economically disadvantaged youth participating in a cooperative education program, this requirement is satisfied if necessary certification is requested or received from the participating school on or before the day on which the individual begins work for the employer. The "designated local agency" is the State employment security agency.

If a certification is incorrect because it was based on false information provided as to the employee's membership in 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 directed 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 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 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 (1) members of economically disadvantaged families and (2) 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, 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, the individual's family income would be, on an annual basis, not more than 70 percent 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 is 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 departed from service within the last 60 days) from receiving the credit.

(4) SSI recipients

SSI recipients are individuals 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 at least a one-month period ending during the 60-day period that 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 that 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 that provides money payments, vouchers, or scrip to needy individuals. Certification is performed by the designated local agency.

(6) Economically disadvantaged former convicts

The seventh targeted group includes any individual who is certified by the designated local employment agency as (1) having at some time been convicted of a felony under State or Federal law, (2) being a member of an economically disadvantaged family, and (3) having been hired within five years of the later of release from prison or date of conviction.

(7) Economically disadvantaged cooperative education students

The sixth targeted group is youths who (1) actively participate in qualified cooperative education programs, (2) have attained age 16 but have not attained age 20, (3) have not graduated from high school or vocational school, and (4) 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 (a) 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, (b) the department of a high school used exclusively or principally for providing vocational education to individuals who are available for study in preparation for entering the labor market, or (c) a technical or vocational school used exclusively or principally for the provision of vocational education to individuals 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 meeting the program participation, age, and degree status requirements of (a), (b), and (c), above.

(8) AFDC recipients

The eighth targeted group includes any individual who is certified by the designated local employment agency as being eligible for Aid to Families with Dependent Children (AFDC) and as having continually received such aid during the 90 days before being hired by the employer.

(9) Economically disadvantaged summer youth employees

The ninth targeted group includes youths who perform services in any 90-day period between May 1 and September 15 and who are certified by the designated local agency as (1) being 16 or 17 years of age on the hiring date, and (2) a member of an economically disadvantaged family. A youth must not have been 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 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 the Federal Unemployment Tax Act (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.

Other rules

In order to prevent taxpayers from eliminating all tax liability by reason of the credit, the amount of the credit may not exceed 90 percent of the taxpayer's income tax liability. Furthermore, the credit is allowed only after certain other nonrefundable credits have been taken. If, after applying these other credits, 90 percent of an employer's remaining tax liability for the year is less than the targeted jobs tax credit, the excess credit can be carried back three years and carried forward 15 years.

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 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, sole proprietorships, and other trades or businesses (whether or not incorporated) that 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 tax 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.

No credit is allowed for wages paid unless the eligible individual is either (1) 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 (20 hours for summer youth) of services performed for the employer.

III. LEGISLATIVE PROPOSALS

1. H.R. 15 and H.R. 325 (Mr. Rangel)

H.R. 15

In the context of a package of tax incentives for enterprise zones, H.R. 15 would add a targeted category for economically disadvantaged tax enterprise zone residents as eligible for the targeted jobs tax credit ("the credit"). The provision would be effective upon the date of enactment.

H.R. 325

H.R. 325 would permanently extend the credit and make two modifications in the targeted categories. First, the age limit for economically disadvantaged youth would be restored to age 25 for individuals who began work for an employer after June 30, 1992. Second, a new category of economically disadvantaged veterans would be added. An economically disadvantaged veteran must (1) be a member of an economically disadvantaged family and (2) have served in the active military, naval, or air services (other than active duty for training) of the United States or have been discharged or released from such service under conditions other than dishonorable. This new category would apply to individuals who begin work for the employer after June 30, 1993.

2. H.R. 110 (Mr. Boehlert) and H.R. 1057 (Mrs. Meyers)

These bills would permanently extend the current credit.

3. H.R. 372, H.R. 1269, and H.R. 4639 (Ms. Snowe)

H.R. 372

H.R. 372 would treat every individual hired within one year after the date of enactment as a member of a targeted group. For such individuals, the maximum credit would be \$5,000.

H.R. 1269

H.R. 1269 would add a targeted category of former employees at Federal military installations who lost their jobs because of base closing and realignments. The provision would be effective upon the date of enactment.

H.R. 4639

H.R. 4639 would add a targeted category of certain dislocated employees from base closures, realignments, and reductions in force. The provision would be effective for taxable years beginning after the date of enactment.

4. H.R. 673 (Mr. Gallegly)

The bill would add a targeted category of dislocated defense workers, effective upon the date of enactment. Dislocated defense workers would be: (1) individuals involuntarily separated from the Armed Forces as a result in reductions in defense expenditures, (2) individuals involuntarily separated from civilian employment in the Defense Department as a result in reductions in defense expenditures, or (3) individuals involuntarily terminated from employment by an employer (other than a governmental body) as a result of reductions in defense expenditures. In all cases, the hiring date must be during the one-year period beginning on the date of involuntary separation or termination.

5. H.R. 1338 (Mr. Upton)

In the context of a package of tax incentives for enterprise zones, the bill would extend a maximum \$1,800 credit to employers of economically disadvantaged enterprise zone residents. The provision would be effective upon the date of enactment.

6. H.R. 2246 (Mr. Andrews of Texas)

The bill would add a targeted category of economically disadvantaged border empowerment zone residents. The provision would be effective upon the date of enactment.

7. H.R. 2271 (Mr. Gingrich)

The bill would modify the definition of qualified summer youth employees to cover individuals aged 14 to 21, and would increase the maximum credit for that category to \$3,500. The provision would be effective for individuals who begin work for the employer on or after April 30, 1993.

8. H.R. 2453 (Mr. Machtley)

The bill would add a targeted category of long-term unemployed defense or shipbuilding industry workers. The provision would be effective upon the date of enactment.

9. H.R. 3147 (Messrs. Edwards of Texas and others)

The bill would permanently extend the targeted jobs tax credit. It would also add a targeted category of veterans who have been awarded (1) a campaign ribbon, (2) a liberation ribbon, or (3) a national defense service medal. The provision would be effective for wages paid to individuals who begin work for an employer after December 31, 1992.

10. H.R. 3828 (Mr. Hefley)

The bill would add a targeted category of individuals who have received or were eligible to receive unemployment compensation for at least 90 days. The provision would be effective upon the date of enactment.

APPENDIX: DATA ON TARGETED JOBS TAX CREDIT PARTICIPATION,
CALENDAR YEAR 1992

Vouchers and Certifications by Targeted Group¹
(Percent of Total in Parentheses)

| <u>Targeted Group</u> | <u>Vouchers</u> | | <u>Certifications</u> | |
|--|-----------------|-----------------|-----------------------|-----------------|
| Economically Disadvantaged Youths 18-22 | 251,185 | (47.6%) | 191,617 | (55.5%) |
| Economically Disadvantaged Vietnam-era Veterans | 17,204 | (3.3) | 9,689 | (2.8) |
| Economically Disadvantaged Former Convicts | 55,623 | (10.5) | 18,559 | (5.4) |
| Economically Disadvantaged Summer Youths | 13,008 | (2.5) | 8,002 | (2.3) |
| General Assistance Recipients | 23,145 | (4.4) | 15,741 | (4.6) |
| SSI Recipients | 8,218 | (1.6) | 5,989 | (1.7) |
| AFDC Recipients | 111,814 | (21.1) | 69,606 | (20.2) |
| Handicapped | <u>47,995</u> | <u>(9.0)</u> | <u>25,777</u> | <u>(7.5)</u> |
| Total² | 528,192 | (100.0%) | 344,980 | (100.0%) |

Source: U.S. Department of Labor

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.