FISCAL IMPACT REPORT

SPONSOR	Munoz/Gould	**ORIGINAL DATE** / **LAST UPDATED**	2/4/20	**HB**	
SHORT TITLE	Foster Youth Employment Tax Credit			**SB**	206
				ANALYST	Torres

REVENUE (dollars in thousands)

Estimated Revenue					**Recurring or Nonrecurring**	**Fund Affected**
FY20	**FY21**	**FY22**	**FY23**	**FY24**		
	($680.0)	($680.0)	($680.0)	($680.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

No Response Received
Taxation and Revenue Department (TRD)
Children, Youth, and Families Department (CYFD)

SUMMARY

Synopsis of Bill

Senate Bill 206 (SB206) amends the foster youth employment income tax credit and the foster youth employment corporate income tax credit to increase the eligible credit amount from $1 thousand to $5 thousand.

The effective date of this bill is July 1, 2020. There is no delayed repeal date but LFC recommends adding one.

FISCAL IMPLICATIONS

The foster youth employment tax credit was not reported in TRD's most recent *Tax Expenditure Report*. LFC continues to base estimates from the Kids Count Data Center project by the Annie E. Casey foundation. Based on this information, and assuming the full value of the credit were claimed for each qualifying foster youth, LFC staff estimate this change could cost up to $680 thousand annually, above the current $170 thousand annual cost estimated.

This bill expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

This bill creates a tax incentive for employing qualified foster youth from ages 14 to 25, which has potential to help current and former foster youth obtain employment. However, the bill defines a qualified foster youth as one "who was not previously employed by the taxpayer prior to the taxable year for which the foster youth employment income tax credit is claimed." Thus, the credit could encourage new employment of foster youth but not the maintenance of that employment. For example, it is possible for a taxpayer to hire a different foster youth for the same position every year in order to continue claiming the credit.

In order to claim the credit, an employer must know the employee is a current or former foster youth. It is unclear exactly how this information will be disclosed to employers. If the intent is to encourage hiring foster youth, potential employees could provide this information to the employer unsolicited. However, if the candidate does not mention in the interview they are a current or former foster youth, the employer would not know (therefore it could not inform the employment decision) or the employer would need to ask the candidate directly (which could raise concerns over confidentiality). It is possible, after the hiring decision is already made, the employer could learn the employee is a current or former foster youth and claim the tax credit, but this would provide a one-time benefit for an action that had occurred anyway (the given individual had already been hired). This calls to question how effectively the tax credit itself could provide an incentive to employers to hire foster youth.

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date to new tax expenditures.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✘	This bill was not heard by interim legislative committees.
Targeted		
Clearly stated purpose	✔	The bill provides a specific purpose statement.
Long-term goals	✘	Not included in the bill.
Measurable targets	✘	Not included in the bill.
Transparent	✔	The bill requires annual reporting by TRD to interim legislative committees.
Accountable		
Public analysis	✔	The bill requires annual reporting by TRD to interim legislative committees.
Expiration date	✘	The bill does not include a delayed repeal date.
Effective		Because it would be difficult for employers to know if job candidates are qualified foster youth (particularly regarding confidentiality concerns), the credit may not impact hiring decisions, calling to question whether the credit could fulfill the bill's stated purpose of encouraging the employment of current and former foster youth.
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	
Key: ✔ Met ✘ Not Met ? Unclear		

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