

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 283 (First Edition)

SHORT TITLE: Tax Credit for Employing Felons.

SPONSOR(S): Representative Pierce

FISCAL IMPACT					
	Yes (X)	No ( )	No Estimate Available ( )		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
<b>REVENUES:</b>	See Assumptions and Methodology*				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b>	North Carolina Department of Revenue.				
<b>EFFECTIVE DATE:</b>	Effective for taxable years beginning on or after Jan. 1, 2005.				
<b>* Potential reduction in revenues - range as follows:</b>					
<b>\$250,000 if only employers receiving federal tax credit participate, and hire low level felons</b>					
<b>\$30 million if half of all eligible felons are hired and their employers receive the tax credit</b>					

**BILL SUMMARY:** Enacts new GS 105-130.47 (corporation income tax credit) and 105-151.29 (individual income tax credit) to provide credits as title indicates. Credits are based on degree of felony committed as follows: (1) high-level felon, as defined--\$1,000; (2) intermediate-level felon, as defined--\$500; (3) low-level felon, as defined--\$250. The appropriate credit is allowed a taxpayer who employs a felon in a full-time job for at least 9 months during the taxable year. The credit may not exceed 50% of the amount of the tax imposed for the taxable year, minus any other credits. Any unused portion of the credit may be carried forward for the succeeding five years.

**ASSUMPTIONS AND METHODOLOGY:** The federal government offers a "Work Opportunity Tax Credit" to employers that hire employees from eight targeted groups. Felons are one of the targeted groups. The credit is used to reduce the tax liability of private employers. Participating employers can claim a maximum federal income tax credit of \$2,400 per eligible worker. The credit is based on 40% of up to \$6,000 in qualifying wages paid during the first year of employment. The Employment Security Commission must certify that the employee hired qualifies the employer to claim the credit.

Between January and December 2004, the Employment Security Commission issued nine hundred and sixty-four (964) certifications for the employment of ex-felons. In 2003, Employment Security issued nine hundred and seventy-three (973) ex-felons certifications. The number of certifications issued represents a minimum estimate on the number of credits that could be issued under the bill. However, actual usage could be substantially higher. According to data from the North Carolina Department of Correction, approximately 52,000 felons were on probation or released from prison in 2004. Data from the Criminal Justice Partnership Program, which serves offenders on probation, parole, and post-release supervision, indicates that, in 2003-04, 49 percent of offenders in Partnership programs were employed. There are no data available on the number of months per year these offenders were employed, or the offense class of the employed offenders. As an example, using the distribution of felony offenders released into the community and assuming an employment rate of 50 percent and an annual increase of two percent in the felon population, the following costs could be incurred in 2005:

<b>Felony Class</b>	<b>Number of Offenders*</b>	<b>Potential Number of Employed Offenders in 2005</b>	<b>Amount of Credit</b>	<b>Potential Cost</b>
"High Level" A - E	4,592	2,342	\$1,000	\$2,341,920
"Intermediate Level" F - G	10,860	5,539	\$500	\$2,769,300
"Low Level" H - I	36,855	18,796	\$250	\$4,699,013
<b>Total</b>	<b>52,307</b>	<b>26,677</b>		<b>\$9,810,233</b>

\*Number of offenders = the number of felons supervised or released into the community in 2004.

Since probation and post-release terms are generally less than five years, the above figures do not include all offenders convicted of felonies or released from prison in the five years preceding the taxable year. Taking into account data on prison releases, probation entries and time supervised, and re-incarceration rates, this suggests the actual upper limit of the cost range could be as high as \$30 million. It should be noted, however, that this figure uses only general trends among felony offenders to estimate the number of qualifying ex-offenders in the community, and assume a 50 percent rate of qualifying employed offenders.

**SOURCES OF DATA:** North Carolina Employment Security Commission, North Carolina Department of Correction, North Carolina Sentencing and Policy Advisory Commission.

**TECHNICAL CONSIDERATIONS:** Because no certification process is required under the legislation, it may be difficult for employers to provide appropriate documentation to the Department of Revenue to justify taking the credit.

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**DATE:** April 15, 2005

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