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SUBJ:

Summary of TJTC

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SUMMARY

The Targeted Jobs Tax Credit (TJTC) was created by the Revenue Act of 1978 to encourage employers to hire hard-to-employ individuals. It has been extended and amended by seven subsequent laws. Most recently, the 101st Congress included extension of TJTC through December 1991, in the FY1991 budget reconciliation bill (H.R. 5835).

TJTC had expired on Oct. 1, 1990. During its brief hiatus, the U.S. Department of Labor (DOL) advised State employment security agencies to continue accepting employers’ certification requests, although they could not process them.

During the first year in which a TJTC eligible is employed, the employer can claim a tax credit equal to 40% of the first $6,000 earned. A minimum period of employment is required before an employer can receive the credit. It is 90 days or 120 hours, except for summer youth hires who must be retained for 14 days or 20 hours. The credit for summer hires is 40% of the first $3,000 earned. In 1989, most TJTC-hires earned between the minimum wage and $3.99 an hour. No data are available on how long they remained employed.

The program is intended to promote employment in the private sector of the following specifically designated groups: economically disadvantaged cooperative education students 16-19 years old, youth 18-22 years old, ex-offenders, and Vietnam-era veterans; vocational rehabilitation referrals; and individuals receiving general assistance, Supplemental Security Income, or Aid to Families with Dependent Children. The credit essentially is a youth employment program since over the years it most often has been claimed for individuals from the economically disadvantaged youth group. In 1989, over half the certifications issued were for members of this group. AFDC recipients, at a little over one-fifth of certifications, and the handicapped, at less than one-tenth, were well behind the youth group.

The costs of the program are primarily lost revenues. According to the Joint Committee on Taxation, revenue losses of $200 million could occur in FY1991; $100 million in FY1992; and $100 million in FY1993. Administrative costs for TJTC had been earmarked, but since FY1987, the States have been told to use an unspecified portion of their Wagner-Peyser grants to cover TJTC-related expenses. Congress has appropriated funds for the program each year, however. In FY1990, $24 million for TJTC administration was distributed by DOL to employment security agencies.

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ISSUE DEFINITION

The Targeted Jobs Tax Credit (TITC) ia not a permanent program. It has been extended for 1 to 8 years by seven laws since the credit’s inception in 1978. After it briefly expired starting Oct. 1, 1990, the 101st Congress reauthorized TJTC through December 1991, in the FY1991 budget reconciliation bill (H.R. 58386).

BACKGROUND AND ANALYSIS

Program Mission and History

The TITC was created by the Revenue Act of 1978 (P.L. 95-600, Section 321) to promote private sector job creation for specifically designated hard-to-employ groups. The credit’s initial expiration date was Dec. 31, 1981. It was extended for 1 year and amended by the Economic Recovery Tax Act of 1981 (P.L. 97-34, Section 261). Employers could claim a credit for hiring individuals from the following groups: economically disadvantaged youth age 18-24; economically disadvantaged cooperative education students age 16-19; economically disadvantaged ex-offenders; general assistance recipients; Supplementary Security Income (SSI) recipients; and Aid to Families with Dependent Children (AFDC) recipients or Work Incentive (WIN) registrants.

(The "lower level standard income level" (LLSIL) is used to determine whether an individual is economically disadvantaged. The level is revised based upon changes in the Consumer Price Index. It varies by geographic area and urban area. The highest LLSIL in the contiguous United States for 1990, $21,950, covers metro areas in the Northeast; the lowest, $18,150, covers non-metro in the South. Current law defines economically disadvantaged as 70% of the appropriate LLSIL.)

The 1981 law also made two changes designed to close loopholes in the program. First, it eliminated retroactive certifications, a practice involving no new job creation. Instead, using this loophole, employers could claim credits for TJTC-eligible persons who already were on the firms’ payrolls. In the early years of the program, 4 majority of the credits claimed were for retroactive certifications. Second, the law required that to be eligible, cooperative education students must live in economically disadvantaged families. Without this constraint, employers were able to receive subsidies for hiring individuals they likely would have hired in the absence of the program.

The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248, Section 233) extended the program for 2 years through 1984, The Act established a special credit to encourage the creation of summer jobs for economically disadvantaged 16 and 17 year olds. For an eligible youngster hired during any 90-day period between May 1 and September 15, an employer’s wage costs were subsidized up to 85% of the first $3,000 earned.

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TJTC was reauthorized for 1 year through Dec. 31, 1985, by the Deficit Reduction Act of 1984 (P.L. 98-369, Section 1041). The program expired at the end of 1985 after the 99th Congress failed to reauthorize TJTC during its first session. Upon the October 1986 signing of the Tax Reform Act of 1986 (P.L. 99-514, Section 1701), the credit was made retroactive to Dec. 31, 1985, and extended for 8 years through Dec. 31, 1988.

The credit originally was equal to 50% of the TUTC-eligible’s first year earnings up to $6,000, and 25% of second year earnings up to $6,000. The 1986 law eliminated the second year of the credit as well as reducing the proportion of wages subsidized to 40%. In addition, minimum employment of 90 days or 120 hours was required before an employer could claim the credit. For summer youth hires, the minimum period now is 14 days or 20 hours. This language was included in the law to limit the practice of workforce churning by some employers. Churning refers to a firm maximizing the amount of credit it receives by rapidly turning over its workforce in order to hire more TJTC-eligibles.

The 100th Congress chose to extend and amend the program in the technical corrections tax Jaw (P.L, 100-647). The one-year extension would have ended on Dec. 31, 1989. The summer youth credit was reduced from 85% to 40% of the first $3,000 earned. The target group of economically disadvantaged youth was narrowed from 18-24 year olds to 18-22 year olds.

The TJTC was extended through Sept. 30, 1990 as part of the FY1990 budget reconciliation bill (H.R. 3299). The 101et Congress passed it on November 22 and the President signed it on Dec. 19, 1989 (P.L. 101-239), An additional requirement concerning TJTC was included in the law: employers requesting certification of job applicants who do not have vouchers must specify at Jeast one but not more than two target groups to which they might belong, and employers must certify that a good faith effort to determine the individuals’ eligibility has been made. Presumably, these changes were made to the program to try to minimize the current practice among some employers and management assistance companies of asking local Employment Service offices to determine TJTC-eligibility for all new hires.

The Treasury Department has testified against extension of TJTC for the past several years. It typically has cited the program’s relatively low utilization rate, the presence of windfall and substitution effects, and the availability of other Federal programs to assist the TJTC-eligible groups as reasons for its opposition.

Program Activity and Costs

Employment Generated

The number of jobs created by the TJTC program will always be less than the number of persons certified as employed. Windfall gains and substitution account for the discrepancy. Windfall gains occur when firms hire members of target groups whom they would have hired without benefit of the program. Substitution occurs when employers either fire workers ineligible for the credit and replace them with

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eligible workers, or hire only eligible workers as vacancies develop. Both these practices are inherent byproducts of tax incentive programs.

In FY1982, there was a drop in certifications because the loophole closings enacted by Congress became effective. More of the decline was due to limiting TJTC eligibility to [ineligible] than to the elimination of retroactive certifications.

Between FY1982 and FY1985, the number of TJTC certifications steadily increased. (See Table 1.) The rise in certifications was related to greater job availability associated with the recovery from the early 1980s recessions and heightened employer awareness of the program. In FY1986, certifications fell because the program lapsed between January and October.

TABLE 1. Number of Certifications,

|  |  |
| --- | --- |
| Fiscal Year | Number of Certifications a/ |
| 1982 | 202,261 |
| 1983 | 431,182 |
| 1984 | 563,381 |
| 1985 | 621,889 |
| 1986 | 155,053 |

A/ Excludes cooperative education determinations.

Source: U.S. Department of Labor

Estimates of the Congressional Budget Office (CBO) and General Accounting Office (GAO) indicate that only a small proportion of the TJTC-eligible population find jobs because of the program. Fewer than 1 out of 10 economically disadvantaged youth age 18-24 who got jobs in 1988 did so through the program. This target group historically has accounted for the majority of the program certifications.

An evaluation by Macro Systems Inc. for the U.S. Department of Labor (DOL) also found little job creation. The researchers concluded just 5-30% of people for whom the credit was claimed would have been unable to get jobs without the program. The credit largely rewards firms that would have hired TJTC-eligibles anyway.

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Retroactive Period

DOL told Employment Security offices to authorize tax credits for employers that hired TUJTC eligibles during the 10-month retroactive period, from January-October 1986. The offices were to review those employer requests for TITC certification that came in during the period which they kept, 98 well as other proof offered by employers that showed timely filing of requests for certification during the period (e.g, postmarked originals or copies of requests, dated certificates of mailing, or State agency date stamps). Employers who could not provide such evidence, even if they had been told hy local offices not to file their requests because the program had lapsed, would be unable to claim the credit.

Between January and October 1986, DOL did not have authority to continue collecting program data since the credit no longer was in effect. Information on program activity since 1987 js available on a calendar year basis. In 1989, there were 452,453 certifications. (See Table 2.) More than half (230,998) were from the economically disadvantaged youth group. The next largest group, AFDC recipients, represented about one-fifth (99,127) of certifications. Handicapped persons for whom credits were claimed represerited less than one-tenth (40,652) of all certifications. Economically disadvantaged ex-convicts (24,795), economically disadvantaged summer youth hires (17,450), general assistance recipients (17,428), and economically disadvantaged Vietnam-era veterans (14,570) collectively accounted for just 16% of the certifications issued for 1989. The States that jssued the most certifications were Texas (68,365), and California (85,164); they accounted for one-fifth of the total. Florida (28,572), New York (24,056), Ohio (28,627), Mlinois (20,895), and Maryland (20,097) collectively accounted for over one-fourth of the total.

TABLE 2. Number of Certifications, TJTC Totals Since the Program was Extended in 1986

|  |  |
| --- | --- |
| Calendar Year | Number of Certifications a/ |
| 1987 | 598,180 |
| 1988 | 497,312 |
| 1989 | 452,453 |
| 1990: I & II | 224,253 |

A/ Excludes cooperative education determinations.

Source: U.S. Department of Labor.

In 1989, most TJTC-hires (192,762) earned between the minimum wage and $3.99 an hour. A somewhat smaller number (144,987) were hired for jobs that paid $4.00-$4.99 an hour. The great majority of TJTC-hires worked in service (201,384) and clerical (154,983) occupations.

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Costs Incurred

Appropriations to cover the administrative costs of the program represent only a small part of the credit's total cost. From FY1980 through FY1984, TJTC administrative appropriations were $20.0 million annually. In FY1985, the appropriation was raised to $27.5 million. Approximately $7.2 million was appropriated for the first quarter of FY1986 to close out the program on the basis of its Dec. 31, 1985 expiration date.

For both FY1987 and FY1988, the Administration proposed that no Employment Service funds be earmarked for TJTC administrative costs. Instead, the States were supposed to use some of their Wagner-Peyser grants, which go toward operating Employment Service activities, for TJTC administration. However, for FY1987, the Supplemental Appropriations Act of 1987 (P.L. 100-71), required that $15 million be used for TITC administration during the remainder of the fiscal year, and for FY88, $28.72 million was appropriated. Although the Administration did not request any funds for program administration in FY1989, Congress included $14.152 million in the Labor Department’s appropriations bill. Some States reportedly had run out of funds to administer the program during the year. For the period Oct. 1, 1989 through Sept. [ineligible] 166 (signed Nov. 21, 1989). The U.S. Department of Labor announced in January 1990 that it had distributed $24 million to the States for TJTC administration.

TJTC’s greatest cost comes in the form of revenue losses (i.e., taxes foregone). According to the Joint Committee on Taxation, revenue losses from TJTC are projected to be $209 million in FY1991 ond $100 mijlion annually in FY1992 and FY1993.

A comprehensive cost-benefit analysis of TJTC for the Nation has not been attempted. Such a study, confined to the Chicago area and to three welfare-targeted groups, found substantial benefits compared to costs. It appears, however, that the study's cost calculation was understated. Macro Systems, using cost-effectiveness in an administrative sense only, also deemed the program a success. Both CRS and CBO estimates show that TJTC costs less per participant served than does the Job Training Partnership Act.

LEGISLATION

P.L. 101-45, H.R. 2402

Makes supplemental appropriations for FY1989, including allowing use of funds for State unemployment Insurance and employment service operations under the Wagner-Peyser Act to carry out TITC. Signed into law June 30, 1989.

P.L. 101-239, H.R. 3289

Provides for reconciliation pursuant to section & of the concurrent resolution on the budget for FY1990. Introduced Sept. 20, 1989; reported by Committee on the Budget as an original measure (H.Rept. 101-247). Passed House, amended, Oct. 5, 1989, Senate struck all after the enacting clause and substituted language of S. 1750

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amended; passed Senate Oct. 13, 1989. Conference held Oct. 25, 1989. Signed into law Dec. 19, 1989.

H.R. 5835 (Panetta)

Provides for reconciliation pur.cunt to section 4 of the concurrent resolution on the budget for FY1991. Introduced Oct. 15, 1990; reported by Committee on the Budget an original measure (H.Rept. 101-881). Passed House, amended, Oct. 16, 1990. Senate struck all after the enacting clause and substituted language of S.3208 amended; passed Senate Oct. 19, 1990. Conference held Oct, 22, 1990.

FOR ADDITIONAL READING

U.S. Library of Congress. Congressional Research Service. The targeted joba tax credit, 1978-1987, by Linda LeGrande. [Washington] July 14, 1987. 13 p. CRS Report 87-616 E

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