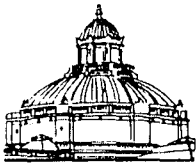


Issue Brief

Order Code IB87142

TARGETED JOBS TAX CREDIT: ACTION IN THE 100TH CONGRESS

Updated November 20, 1987



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TARGETED JOBS TAX CREDIT: ACTION IN THE 100TH CONGRESS

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 four subsequent laws. The most recent, the Tax Reform Act of 1986, was enacted only after the program had expired (the credit ran through Dec. 31, 1985). On Oct. 22, 1986, it was made retroactive to its expiration date and extended for 3 years through Dec. 31, 1988.

In addition to reviving the program, the Tax Reform Act of 1986 dropped the second year of the credit and reduced the size of the wage subsidy. 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 also is required before an employer can receive the credit. The employment period is 90 days or 120 hours, except for summer youth hires whose minimum is 14 days or 20 hours.

The program was enacted to promote employment in the private sector of the following specifically designated groups:

- economically disadvantaged cooperative education students 16-19 years old,
- economically disadvantaged youth 18-24 years old,
- economically disadvantaged ex-offenders,
- economically disadvantaged Vietnam-era veterans,
- vocational rehabilitation referrals,
- individuals receiving general assistance,
- individuals receiving Supplemental Security Income, and
- individuals receiving Aid to Families with Dependent Children.

The credit essentially is a youth employment program since it most often is claimed for hiring economically disadvantaged youth age 18-24. However, out of all youth for whom the credit could be claimed, only a small proportion actually are hired through the program.

The costs of the program are in the form of revenue losses and administrative costs. According to the President's budget submission, the revenue loss estimate for FY88 is \$460 million. Administrative costs for TJTC were earmarked in past years, but for FY87, the States were told to use an unspecified portion of their Wagner-Peyser grants to cover TJTC-related expenses. With passage of the Supplemental Appropriations Act of 1987 (P.L. 100-71), however, \$15 million was designated toward TJTC administration during the remainder of this fiscal year.

With the credit set to expire during the 100th Congress, bills have been proposed to extend and amend the program. They include H.R. 1064, H.R. 1480, H.R. 1534, H.R. 2215, and S. 684.

ISSUE DEFINITION

The Targeted Jobs Tax Credit (TJTC) is not a permanent program. It has been extended for 1 to 3 years by four laws since the credit's inception in 1978. Most recently, the program lapsed in January 1986, but Congress subsequently acted to make it retroactive and to extend it through 1988. As the credit is set to expire during the 100th Congress, legislation has been introduced to reauthorize and amend the program.

BACKGROUND AND ANALYSIS

Program Mission and History

The TJTC was created by the Revenue Act of 1978 (P.L. 95-600, sec. 321) to promote private sector job creation for specifically designated hard-to-employ groups. As amended by the Economic Recovery Tax Act of 1981 (P.L. 97-34, sec. 261), employers can 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; economically disadvantaged Vietnam-era veterans; vocational rehabilitation referrals; general assistance recipients; Supplementary Security Income (SSI) recipients; and Aid to Families with Dependent Children (AFDC) recipients or Work Incentive (WIN) registrants.

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, a 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, sec. 233) 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 are subsidized up to 85% of the first \$3,000 earned.

For all other target group members, the credit originally was equal to 50% of the TJTC-eligible's first year earnings up to \$6,000, and 25% of second year earnings up to \$6,000. The Tax Reform Act of 1986 (P.L. 99-514, sec. 1701) 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 is required before an employer can claim the credit. For summer youth hires, the minimum period 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 hiring TJTC group members, firing them once they are no longer eligible, and then hiring other TJTC group members to replace the laid off workers.

The program's initial expiration date was Dec. 31, 1981. It was extended for 1 year through 1982 by the Economic Recovery Tax Act of 1981, for 2 years through 1984 by the Tax Equity and Fiscal Responsibility Act of 1982, and for 1 year through 1985 by the Deficit Reduction Act of 1984 (P.L. 98-369, sec. 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, the credit was made retroactive to Dec. 31, 1985, and extended for 3 years through Dec. 31, 1988.

Program Activity and Costs

Employment Generated

The number of jobs created by the TJTC program is less than the number of persons certified as employed, with windfall gains and substitution accounting 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 eligible workers, or hire only eligible workers as vacancies develop. Both these practices are an inherent byproduct of tax incentive programs.

In FY82, 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 cooperative education students from economically disadvantaged families, than to the elimination of retroactive certifications.

Between FY82 and FY85, 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 FY86, certifications fell because the program lapsed between January and October.

TABLE 1. Number of Certifications, TJTC Program Totals

Fiscal Year	Number of Certifications (a)
1982	202,261
1983	431,182
1984	563,381
1985	621,889
1986:I	61,158

(a) Excludes cooperative education determinations.

Source: U.S. Department of Labor.

Estimates of the Congressional Budget Office and General Accounting Office 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 1983 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 not have gotten jobs in the absence of the program. The credit largely rewards firms that would have hired TJTC-eligibles anyway.

The Retroactive Period

Information on program activity since January 1986 is not available. Between January and October 1986, DOL did not have authority to continue collecting program data since the credit no longer was in effect. Information for FY87 is incomplete. Regular reporting is expected to resume for FY88.

DOL has told Employment Security offices to authorize tax credits for employers that hired TJTC eligibles during the 10-month retroactive period. The offices are to review those employer requests for TJTC certification that came in during the period which they kept, as well as other proof offered by employers that show 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 cannot provide such evidence, even if they had been told by local offices not to file their requests because the program had lapsed, will be unable to claim the credit.

Employment security offices faced a backlog of one million certification requests upon reinstitution of TJTC. They expect to have them all processed by the end of 1987. According to a survey by the Interstate Conference of Employment Security Agencies, the cost of processing these certification requests might total \$18 million. The survey also contains an estimate of \$28 million for administering the program through the end of FY87, exclusive of the certification backlog.

Costs Incurred

Appropriations to cover the administrative costs of the program represent only a small part of the credit's total cost. From FY80 through FY84, TJTC administrative appropriations were \$20.0 million annually. In FY85, the appropriation was raised to \$27.5 million. Approximately \$7.2 million was appropriated for the first quarter of FY86 to close out the program on the basis of its Dec. 31, 1985 expiration date.

For FY88, no Employment Service funds have been earmarked for TJTC administrative costs. Instead, as the Administration had proposed for FY87, the States are supposed to use some of their Wagner-Peyser grants, which go toward operating Employment Service activities, for TJTC administration. For FY87, the Supplemental Appropriations Act of 1987 (P.L. 100-71), requires that \$15 million be used for TJTC administration during the remainder of this fiscal year.

TJTC's greatest cost comes in the form of revenue losses (i.e., taxes foregone). According to the Budget of the United States Government, Special Analyses, Table G-2, the revenue loss estimate for FY88 is \$460 million.

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

H.R. 1064 (Bilirakis)

Amends the Internal Revenue Code to qualify displaced homemakers for the TJTC. Introduced Feb. 10, 1987; referred to Committee on Ways and Means.

H.R. 1480 (Conte)

Amends the Internal Revenue Code to allow employers a tax credit for employing certain low-income individuals who have attained a specified age. Introduced Mar. 9, 1987; referred to Committee on Ways and Means.

H.R. 1534 (Williams)

Amends the Internal Revenue Code to include as members of the TJTC population certain low income individuals aged 55 or older and dislocated workers. Introduced Mar. 10, 1987; referred to Committee on Ways and Means.

H.R. 2215 (Moody)

Amends the Internal Revenue Code to provide that the TJTC will not be allowed for wages paid during a labor dispute. Introduced Apr. 29, 1987; referred to Committee on Ways and Means.

S. 684 (Heinz)

Amends the Internal Revenue Code to make the TJTC a permanent program. Introduced Mar. 6, 1987; referred to Committee on Finance.

FOR ADDITIONAL READING

Levitan, Sar A. and Frank Gallo. The targeted jobs tax credit: An uncertain and unfinished experiment. Labor law journal, October 1987: 641-649.

U.S. Library of Congress. Congressional Research Service. The targeted jobs tax credit, 1978-1987, by Linda LeGrande. [Washington] July 14, 1987. 13 p.

CRS Report 87-616 E