SUBJECT

Foster Youth Employment Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), would authorize a credit for employers for the employment of foster youths in certain work experience or apprenticeship programs.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The March 25, 2021, amendments, under the PITL and CTL, would create a credit as discussed in this analysis.

This is the department’s first analysis of the bill.

REASON FOR THE BILL

The reason for this bill is to provide an incentive to businesses to hire foster youths.

ANALYSIS

This bill would, under the PITL and the CTL, for taxable years beginning on or after January 1, 2021, and before January 1, 2028, would create a credit for employers of qualified employees who are current or former foster youths, equal to 40 percent of the qualified wages paid to a qualified employee. This credit would be limited to two thousand four hundred dollars cumulatively for each qualified employee.

Any deduction allowed for qualified wages taken under this legislation will be reduced by the amount of the credit allowed.
The term “foster youth” is defined as:

- A child who is the subject of a dependent child of the court petition filed pursuant to Welfare and Institutions Code (WIC), whether or not the child has been removed from their home by the juvenile court;
- A child who is the subject of a ward of the court petition filed pursuant to the WIC, and has been removed from their home by the juvenile court and is in foster care as defined by the WIC; and
- A dependent child of the court of an Indian tribe, consortium of tribes, or tribal organization who is the subject of a petition filed in the tribal court pursuant to the tribal court's jurisdiction in accordance with the tribe's law, provided that the child would also meet one of the descriptions in WIC describing when a child may be adjudged a dependent child of the juvenile court.

The term “qualified wages” is defined as wages paid to a qualified employee for work completed as part of a Work Experience Education Program under the Education Code, or an apprenticeship or pre-apprenticeship program registered with the Division of Apprenticeship Standards under the Labor Code.

The term “qualified employee” is defined as an employee who:

- Has not attained the age of 25 as of the last day of the taxable year; and
- Is currently, or was at one time, a foster youth.

If the employee is hired on or after January 1, 2021, the credit would only be allowed for wages paid during the first 12 months of the employment of the qualified employee.

If the employee was hired before January 1, 2021, the credit allowed by this section would only be allowed for wages paid before January 1, 2022.

To meet Section 41 requirements the bill states the following:

- The goal, purpose, or objective of the tax credits would be to expand employment opportunities for current or former foster youth by creating hiring incentives; and
- The performance indicator for the Legislature to use when measuring the credit shall be the number of taxpayers who are allowed under these credits.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2021, and before January 1, 2028.
Federal/State Law

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Federal Law

Under Federal Law, the Work Opportunity Tax Credit is available to employers for the hiring individuals from certain targeted groups who have consistently faced significant barriers to employment. Certain targeted groups can include individuals such as ex-felons, summer youth employees, Long-Term Family Assistance Recipients, Long-Term Unemployment Recipients among others.

State Law

Current state law contains the New Employment Credit (NEC) that is available to a qualified taxpayer that hires a qualified full-time employee, has an overall net increase in employment, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract.

Under Revenue and Taxation Code section 41, legislation that would create a new tax credit is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the credit.

Implementation Considerations

The department has identified the following implementation consideration, and is available to work with the author’s office to resolve this and other considerations that may be identified.

While the bill contains section 41 language, it also lacks specific directions for the agency responsible as well as the timing required for the report. It is recommended that the bill be amended to address this concern.

Technical Considerations

In subdivision (a) of both Sections 17053.8 and 23622, the phrase “qualified wages paid to a qualified employee” should be changed to “qualified wages paid or incurred to a qualified employee during the taxable year”.

It is unclear how the credit should be computed for employees hired before January 1, 2021. If the author’s intention is to allow the credit for wages paid only during the 12 months of 2021 for those employees, the language in Sections 17053.8(c)(2) and 23622(c)(2) should be amended to “the credit allowed by this section shall only be allowed for wages paid during 2021 but before January 1, 2022".
Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 675 (Bloom, 2021/2022) would provide a homeless employment tax credit equal to between $2,500 and $10,000 per eligible individual but not to exceed $30,000 per taxable year. AB 675 has been referred to the Assembly Revenue and Taxation committee.

AB 2041 (Dahle, 2019/2020) would have provided a tax credit equal up to 50 percent of wages to qualified full-time employees who at the time of hiring and is either a former foster youth or is an ex-offender previously convicted of a felony. AB 2041 did not pass out of the Assembly by the constitutional deadline.

AB 3065 (Lackey, 2019/2020) would have provided a tax credit to certain employers that hire employees who are foster youth, former foster youth, or homeless youth. AB 3065 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

The department’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 709 as Amended March 25, 2021
Assumed Enactment after June 30, 2021

($ in Millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue</th>
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<tr>
<td>2022-2023</td>
<td>-$3.6</td>
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<tr>
<td>2023-2024</td>
<td>-$3.1</td>
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</tbody>
</table>

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.
LEGAL IMPACT
None noted.

APPOINTMENTS
None noted.

SUPPORT/OPPosition
To be determined.

Arguments
To be determined.

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