UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROGRAM ANALYSIS
DIVISION

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JUNE 8, 1983

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The Honorable Robert Dole
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

Subject: Targeted Jobs Tax Credit Program Activity (GAO/PAD-83-44)

As requested in your letter of March 18, 1983, we are providing updated information on the Targeted Jobs Tax Credit (TJTC) program. The enclosed appendix discusses in greater detail various characteristics of this program based on data obtained from the Department of Labor. We used these data to construct a brief statistical profile of program activity and those served by the program. Furthermore, we analyzed how changes in the program resulting from the Economic Recovery Tax Act of 1981 (ERTA) have affected program activity, particularly in fiscal year (FY) 1982. This information serves as a backdrop for updating our estimates of the TJTC "take-up" rate for economically disadvantaged youth. [1] We provided an estimate of the take-up rate for FY 1980 to the Subcommittee on Economic Growth, Employment, and Revenue Sharing in June 1981 (see GAO/PAD-81-73).

Using the available data, we found that the TJTC program has focused on the young and economically disadvantaged job seeker. A large proportion of program certifications are for lower paying jobs, and are located in the southern States.

Several important changes occurred in the program with the passage of ERTA. Prior to FY 1982, the largest target group served by the program was cooperative education students. ERTA changed the eligibility rules so that only economically disadvantaged co-op students could be eligible for hire under TJTC. Our analysis suggests that this more narrow targeting of the program is the major factor underlying the sharp drop in TJTC certifications in FY 1982.

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[1] The "take up" rate is the ratio of certified hires under TJTC to an estimate of the population of eligible hires.

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The decline in the level of TJTC vouchers from FY 1981 to FY 1982 would have been greater except for the addition of two new target groups: laid off public service employees, and WIN program/AFDC recipients. The vouchers granted to this latter group offset the decline in co-op student vouchers.

Another important program change was eliminating the practice of "retroactive certification." It is not possible, however, to precisely determine the effect that this change had on program activity.

The TJTC program has operated over its short history in an environment of stagnant employment growth. Despite this, our calculations show that the take-up rate for gross eligible new hires of economically disadvantaged youth was 4.6 percent and 3.7 percent in FY 1981 and FY 1982. These rates are higher than that calculated for FY 1980 (2.5 percent). They still represent quite a low rate of utilization, as we concluded in our earlier report. However, we are encouraged that the rates rose slightly during a period when labor markets were weak and the program was affected by significant changes induced by ERTA.

At your request we did not obtain agency comments on this report. Copies of this report are being sent to the Secretary of Labor, the Director, Office of Management and Budget, the Secretary of the Treasury, and other interested parties.

We will continue our oversight of the Department of Labor's administration of TJTC.

Sincerely yours,

Morton A. Myers
Director

Enclosure - 1

THE TARGETED JOBS TAX CREDIT PROGRAM

INTRODUCTION

The Targeted Jobs Tax Credit (TJTC) program was implemented in 1979 to focus employment incentives on more narrowly targeted groups whose unemployment rates are traditionally above the national average. In this way, the program differed from its predecessor, the New Jobs Tax Credit (NJTC) program, which was not targeted on specific groups and served the objectives of countercyclical economic policy. The targeted groups under the TJTC program are primarily the economically disadvantaged. They include youth (18-24), Vietnam-era veterans, and ex-convicts. In addition, general assistance and Supplemental Security Income (SSI) recipients, vocational rehabilitation referrals, and cooperative education students are included in the program.

Employers may claim a credit against their income tax liability up to $3,000 per individual in the first year of employment (50 percent of qualified wages up to $6,000) and $1,500 in the second year (25 percent of wages up to $6,000). Generally, to participate in the program, a potential job applicant must acquire a voucher from a designated agency. Then, the applicant seeks employment and, upon finding it, a certification is issued permitting the employer to claim the credit.

Recent tax legislation (ERTA, 1981, and TEFRA, 1982) 1/ has affected the program in a number of ways. 2/ In an important change, the 1981 act eliminated the practice of "retroactive certification," whereby employers who hired non-vouchered individuals had them vouchered and certified after it was discovered they met TJTC eligibility requirements. The 1981 change stopped this practice of certifying hires "after the fact." This change in the law was designed to make it more difficult for firms to claim credit for hires that would have taken place without the program.

Another important change, initiated in the 1981 act, was that cooperative education students had to be economically disadvantaged in order to be eligible for the program.

These and other changes have affected TJTC program activity, particularly in FY 1982. This appendix provides a brief statistical profile of the TJTC and analyzes aggregate program activity

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1/The Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982.

2/The 1982 act (TEFRA) extended the TJTC program until December 31, 1984.

since it was implemented. This background discussion provides the context for estimating the "take-up" rate for the economically disadvantaged youth target group for FY 1980 through FY 1982. The take-up rate, which can be construed as one measure of program effectiveness, is defined as the ratio of TJTC certifications to an estimate of the program's target population.

The data used in these calculations were obtained from our previous report, the Bureau of Labor Statistics, and the Labor Department's Office of Planning and Review. Detailed data on TJTC program activity for FY 1982 are not yet available, thus precluding some comparisons across years for certain program characteristics and for specific sub-periods such as months and quarters. However, given the assumptions and methods employed, the data available permit us to estimate the take-up rate for TJTC and allow us to analyze, on an annual basis, aggregate activity over the life of the program.

PROGRAM PROFILE

TJTC activity, FY 1979 to FY 1982

Data on TJTC vouchers and certifications have been reported since March 1979. Preliminary data for FY 1982 have recently been made available. Thus, we have three complete years of aggregate data for FY 1980 through FY 1982 and half-fiscal year data for 1979.

We present the data for vouchers and certifications in table 1.

Table 1

TJTC Vouchers and Certificates Issued, Program Totals

Fiscal Year	Vouchers	% Change	Certifications	% Change	Ratio of Certifications to Vouchers
1979 (6 month)	83,752	n/a	37,020	n/a	44.2
1980	616,942	n/a	305,743	n/a	49.6
1981	733,672	18.9	411,581	34.6	56.1
1982 (preliminary)	685,271	-6.6	252,461	-38.7	36.8

n/a = not applicable

Source: Labor Department--Office Planning and Review.

Fiscal years 1979 and 1980 can be considered "start-up" years for the TJTC, as can be seen by the rapid increase in vouchers and certifications in FY 1980 compared to half-year data for 1979. About half of the vouchers issued resulted in certifications. Program activity began to level off in FY 1981 but vouchers and certifications still showed increases of 19 percent and 35 percent. The ratio of certifications to vouchers rose further as, apparently, firms became more aware of the credit. However, 1981 was also a year of change for the program. Retroactive certification ceased at the end of FY 1981. There is little doubt that FY 1982 program activity was affected by the change. Also affecting the FY 1982 program totals was the change in eligibility for non-disadvantaged cooperative education students. Co-op students had constituted the largest target group under the program and the changes in their eligibility combined with the elimination of retroactive certification would lead one to expect a sharp drop in FY 1982 certifications. The aggregate data in table 1 bear out such an expectation. TJTC vouchers declined 6.6 percent in FY 1982. More striking, however, is the decline in certifications to 252,461, which is 38.7 percent lower than FY 1981. These figures also show a drop in the ratio of certifications to vouchers from 56 percent in FY 1981 to 37 percent in FY 1982. The factors underlying these dramatic changes in program activity are discussed below.

The actual number of certifications should not be interpreted to represent new jobs created by the program, in part, because of the practice of "retroactive certification." Also, there is no easy way to measure whether the program induced "substitution" of eligible disadvantaged workers for non-eligible workers, with no overall increase in aggregate employment. 3/

It is also useful to consider the effects which general economic trends may have had on program activity. The TJTC program was still in a start-up phase when the national economy

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3/Additional discussion of this problem can be found in National Commission for Employment Policy: Sixth Annual Report to the President and the Congress, Washington, D.C., December 1980.

There are additional reasons why the data in table 1 need to be interpreted with some care. First, a 1981 administrative change extended the period for which vouchers were effective. This could imply that earlier data may reflect multiple vouchers during the year for individuals unsuccessful in job search. There may also have been multiple certifications of some individuals but we have no data on this aspect. Note also that until recently, cooperative education students did not follow the practice of obtaining vouchers prior to obtaining employment. Rather they only needed to certify their student status. Thus an equal number of vouchers and certifications of co-op students are included in the aggregate program totals prior to FY 1982.

reached a cyclical peak in late 1979-early 1980. The economy experienced a brief downturn in early 1980 and moved into a modest recovery in 1981, only to turn back into a more serious downturn in late 1981 and 1982. Therefore, during the period over which the program has been in effect, aggregate employment has grown very little. The almost constant level of aggregate employment bears importantly on our estimate of new hires, and consequently on the calculation of the take-up rate. We discuss these implications in a subsequent section.

TJTC by target group and region

Since the percentage distribution of certifications and vouchers across target group and region are fairly similar, in this section we need only to discuss the data on certifications.

Data on TJTC certifications for FY 1981 show that the two dominant target groups served by the program were economically disadvantaged youth (18-24 years old) and cooperative education students. Together these two groups constituted over 85 percent of TJTC certifications. As discussed above, a program change occurring in FY 1982 markedly decreased the number of certifications of co-op students. This decrease leads to an increase in the relative importance of all other groups. The distribution of certifications by target group for FY 1982 is shown in table 2.

The data show that economically disadvantaged youth now constitute the largest TJTC target group, accounting for almost 56 percent of FY 1982 certifications. The co-op student target group now composes only 18 percent of certifications compared with 43.5 percent in FY 1981.

Two new target groups were added in FY 1982. They are laid off public service employees (PSE) under the Comprehensive Employee Training Act (CETA), and WIN program/AFDC (Aid to Families of Dependent Children) recipients.

Table 3 shows the geographic distribution of TJTC certifications according to the 10 standard Federal administrative regions.

These data show an uneven geographic distribution of TJTC certifications. For example, over one-fourth (25.9 percent) of FY 1982 certifications took place in Region IV, an area composed of eight southern States. Region V (Great Lakes States) accounted for 14.7 percent of certifications, while Region III (Middle Atlantic States) had 12.6 percent and Region II (New York-New Jersey area) 11.0 percent. Almost two-thirds of total certifications occurred in these four regions.

When certifications for the largest targeted group, economically disadvantaged youth, are broken down by region, their distribution displays a pattern quite similar to that shown in table 3.

Table 2

Percentage of TJTC Certifications
By Target Group
(FY 1981)

		Percentage [a]
Economically Disadvantaged	Youth (18-24)	55.9
	Vietnam-era veterans	5.4
	Ex-convicts	5.4
	Co-op students	18.1
	Handicapped	6.1
	General assistance recipients	3.6
	SSI recipients	0.4
	Public service employment (PSE)	0.5
	AFDC recipients	7.3

[a]/Total does not add to 100 due to rounding.

Source: Labor Department--Office of Planning and Review.

Table 3

Percentage of TJTC Certifications
By Region
(FY 1982)

Region		Percentage [a]
I	(New England)	6.5
II	(New York and New Jersey)	11.0
III	(Middle Atlantic)	12.6
IV	(Southern)	25.9
V	(Great Lakes)	14.7
VI	(Gulf)	8.2
VII	(Corn Belt)	5.4
VIII	(Mountain)	3.3
IX	(West: California, Arizona, Nevada, Hawaii)	7.3
X	(Pacific Northwest)	5.0

[a]/ Total does not add to 100 due to rounding.

Source: Labor Department-Office of Planning and Review.

Other program characteristics

The lack of complete, detailed data on TJTC for FY 1982 precludes a more in-depth program profile. However, data which are available through the first three quarters of FY 1981 provide some information on the groups served by TJTC. 4/

In summarizing the characteristics of the TJTC program prior to FY 1982, the Labor Department usually excluded co-op students from the analysis of data because this target group did not receive vouchers in the same manner as other program participants. 5/ Including an identical number of vouchers and certifications of co-op students in the aggregate totals might tend to create some distortion in comparing target groups and participating agencies. When these data for the first three quarters of FY 1981 are used and adjusted to exclude the co-op students, they show that over 90 percent of vouchers have been issued by three participating agencies: the Job Service, 63 percent; CETA prime sponsor agencies, 24 percent; and general assistance welfare, approximately 6 percent.

They also show that even though vouchers and certifications were issued primarily to white males between the ages of 19 and 24, a significant proportion of minorities were served by TJTC. Excluding co-op students, blacks composed over 30 percent of certifications and Hispanics about 11 percent. Veterans accounted for almost 12 percent of certifications for the first three quarters of FY 1981.

Nationally, over 70 percent of certifications were for jobs that paid less than $4.00 per hour. About one-fourth of the jobs were in service occupations. Clerical and sales-related positions accounted for about 14 percent of certifications. A significant proportion of the remaining certifications were in traditional blue collar-type occupations.

TJTC data for fiscal year 1982

The latest preliminary TJTC data displayed in table 1 show a marked decline in certifications. Also notable is the sharp drop in the ratio of certifications to vouchers. The discussion so far has identified three factors which may have contributed to the decline in 1982 certifications. These factors are the almost constant level of aggregate employment over the past 3 years, the elimination of the practice of retroactive certification, and the provision that cooperative education students be disadvantaged.

4/See Targeted Jobs Tax Credit Program: Quarterly Summary for Period Ending June 31, 1981, U.S. Employment Service - Office of Program Review.

5/See footnote 3, p. 3.

It is difficult to precisely determine the extent to which each of these factors contributed to the decline in certifications because the effect of the latter two factors mentioned above is not independent of the failure of our economy to grow. However the available data do permit us to make some inferences.

As expected, the FY 1982 data show a substantial drop in certifications of co-op students, which had previously constituted the largest TJTC target group. The FY 1982 level of certifications for this group was 45,575, a drop of 133,409 or about 75 percent over FY 1981. This compares with an overall drop in certifications of 159,120 for the program as a whole. From this we infer that changing the eligibility requirements for co-op students was the major factor explaining the drop in certifications.

However, an apparent anomaly occurs in the FY 1982 voucher data. Whereas vouchers of co-op students fell by 132,370, vouchers for the program as a whole fell by only 48,401. This discrepancy is explained by the addition in FY 1982 of the two new target groups mentioned in the previous section. The AFDC group is the more significant but while both groups together accounted for 125,030 vouchers, combined they totaled only 19,659 certifications. This difference implies that the increase in vouchers for the two new groups just about exactly offsets the decrease in vouchers of co-op students.

To make more meaningful comparisons of total program activity in FY 1982 with FY 1981, it is necessary to net out the effect of the two new target groups. This is shown in table 4.

Table 4 shows that the decrease in vouchers and certifications in FY 1982 among the comparable target groups is even more marked than the unadjusted data shown in table 1. Total vouchers dropped by almost 24 percent over FY 1981 while certifications fell 43 percent. Adjusting for the influence of the new target groups also shows that the gap between certifications and vouchers is less pronounced than the program totals show in table 1. The ratio of adjusted certifications to vouchers was 41.6 percent in FY 1982, a decline compared to FY 1981, but a less drastic one than the unadjusted data show.

The adjusted data also permit a better estimate of the factors underlying the FY 1982 declines. The total declines in FY 1982, in adjusted TJTC vouchers and certifications, were 173,431 and 178,779. 6/

6/The first sum, 173,431, is the difference between the vouchers for FY 1981, 733,672, and the adjusted total for FY 1982, 560,241. A similar computation for certifications yields 178,779.

Table 4

Adjusted Program Data

	Vouchers	Certifications
TJTC total FY 1982	685,271	252,461
New target groups (PSE and AFDC)	- 125,030	- 19,659
TJTC FY 1982 calculated comparable to FY 1981	560,241	232,802
Percentage change over actual FY 1981 totals	-23.6	-43.4
Ratio: certifications/vouchers	41.6	

As the 1982 declines in co-op student vouchers and certifications were 132,370 and 133,409, about 76.3 percent of the total decline in vouchers and 74.6 percent of the total decline in certifications is attributable to this group. As shown in table 5, this leaves only about one-fourth of the decline attributable to the elimination of retroactive certification, the lack of economic growth in the economy, and any other factors affecting the program.

While, again, there is no easy way to separate the individual effects of the elimination of retroactive certification from the current economic conditions, these data suggest that the former may not have been as negative an influence on program activity as might have been expected.

ESTIMATING THE TJTC "TAKE-UP" RATE FOR ECONOMICALLY DISADVANTAGED YOUTH

A principal purpose of our earlier report, PAD-81-73, was to provide an estimate of the take-up rate for a major TJTC target group, "economically disadvantaged youth." We considered the take-up rate as one measure of program effectiveness. This rate is the ratio of certifications issued to the number of eligible hires (i.e., the target population). Since data on TJTC certifications have been furnished to us by the Labor Department, the calculation of the take-up rate requires only an estimate of the number of eligible hires.

Using a methodology consistent with our earlier report, the number of eligible new hires of economically disadvantaged youth in the 18-24 age category was estimated for fiscal years 1980 through 1982. These estimates are presented in table 6, for

Table 5

FY 1982 Decline in TJTC Levels

	Vouchers	Certifications
Decrease in FY 1982 program levels adjusted for new groups	173,431	178,779
Decrease in co-op student groups	132,370	133,409
% of total decrease	76.3	74.6
Decrease due to all other factors	41,061	45,370
% of total decrease	23.7	25.4

gross hires and full-year equivalent 7/ hires in the private business sector.

A noticeable aspect of the data shown in table 6 is the stability of the estimate for gross new hires and, consequently, for full-year equivalent hires as well. This is due to the near constancy of total employment in the private business sector over the past 3 years and the use of these data to calculate gross new hires.

Since the computed level of new hires has remained almost constant over the past 3 fiscal years, changes in the take-up rate will reflect changes in certifications. The estimates for the take-up rate are presented in table 7.

The take-up rate for gross hires in FY 1980 is estimated as 2.5 percent. The rate for full-year equivalent hires is 3.8 percent. In FY 1981, as certifications in the target group almost doubled, so did the take-up rate to 4.6 percent and 6.9 percent for gross and full-year equivalent hires. The most recent rates estimated for FY 1982 are 3.7 percent for gross hires and 5.5 percent for full-year equivalent new hires.

7/Since in our earlier report we considered gross hires to include individuals who have been hired more than once during the year (i.e., they have quit one or more jobs and take others), we need to adjust these data to compute full year equivalent hires. In our earlier report, after consulting scholarly works in the field, Social Security files, and Current Population Survey data, we found it reasonable to assume that one-half of gross hires are individuals who were hired only once during the year while the other half consisted of high turnover individuals who averaged three hires per year. Thus, full-year equivalent hires are estimated as .667 of gross hires (or .5 + .5 x .333).

The estimates in table 7 for FY 1981 and FY 1982 are not much higher than the figure reported for FY 1980 which, in our earlier report, we judged to be rather low. This is consistent with the observations of other students of the program, who have criticized the efficacy of TJTC. [8] However, we note that the FY 1981 take-up rate almost doubled during a period of stagnant employment growth. Also, the FY 1982 rate remained higher than FY 1980 despite the program changes induced by ERTA, which resulted in a lower level of certifications.

Table 6

Estimated New Hires of Economically Disadvantaged Youth 18-24 Years Old in the Private Business Sector
(in millions)

	FY 1980 [a]	FY 1981	FY 1982
Gross new hires	3.81	3.84	3.82
Full-year equivalent new hires	2.54	2.56	2.55

[a]Note that these estimates for FY 1980 vary slightly from those presented in our earlier report. The difference is attributable to revisions in the underlying data.

Table 7

Targeted Jobs Tax Credit (TJTC) Estimated Take-up Rate for the Economically Disadvantaged Youth Target Group FY 1980-82
(in percent)

	FY 1980 [a]	FY 1981	FY 1982
Rate for gross hires	2.5	4.6	3.7
Rate for full-year equivalent hires	3.8	6.9	5.5
Number of certifications of economically disadvantaged youth, 18-24 years old	95,510	176,131	141,048

[a]Note again that these percentages differ slightly from those presented in our earlier report. The differences are due to revisions in the underlying data.

[8]See National Commission for Employment Policy, p. 39.