

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 184
 Ways and Means

(Delegate Lafferty, *et al.*)

Budget and Taxation

Income Tax Credit - Oyster Shell Recycling

This bill creates a nonrefundable tax credit against the State income tax equal to \$1.00 for each bushel of oyster shells recycled during the taxable year, not to exceed \$750 per tax return.

The bill takes effect July 1, 2013, and applies to tax year 2013 through 2017. The bill terminates on June 30, 2018.

Fiscal Summary

State Effect: General fund revenues decrease by \$42,500 in FY 2014 due to the oyster shell recycling credit. Transportation Trust Fund (TTF) revenues decrease by \$5,500, of which \$5,000 goes to the State, and Higher Education Investment Fund (HEIF) revenues decrease by \$2,000 in FY 2014. Future year revenue losses through FY 2018 reflect a 2% growth rate. General fund expenditures increase by \$106,300 in FY 2014 for one-time start-up costs.

| (in dollars) | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|----------------|-------------|------------|------------|------------|------------|
| GF Revenue | (\$42,500) | (\$43,300) | (\$44,200) | (\$45,800) | (\$46,700) |
| SF Revenue | (\$7,500) | (\$7,700) | (\$7,800) | (\$7,300) | (\$7,400) |
| GF Expenditure | \$106,300 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$156,300) | (\$51,000) | (\$52,000) | (\$53,100) | (\$54,100) |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Potential minimal decrease in local highway user revenues beginning in FY 2014. Expenditures are not affected.

Small Business Effect: Minimal. Qualifying small businesses that recycle oyster shells would be positively impacted through lower income taxes.

Analysis

Bill Summary: The oyster shell recycling credit may not be carried over to any other tax year. An individual or corporation claiming the credit must be able to verify the cost incurred. The Department of Natural Resources (DNR) and the Comptroller's Office are required to jointly adopt regulations to implement the credit, including establishing eligibility criteria and providing for the certification of businesses, landfills, and nonprofit organizations to verify the amount of oyster shells recycled by each individual or corporation.

Current Law: No similar State tax credit of this type exists. North Carolina offers a similar credit for oyster shell recycling, although it will be repealed beginning in tax year 2014. The North Carolina tax credit is a nonrefundable credit of \$1.00 per bushel of oyster shells donated, with any unused portion of a credit allowed to be carried forward for the succeeding five years.

Background: Since 1994, the Chesapeake Bay's oyster population has languished at 1% of historic levels; suitable oyster habitat has decreased 80%, and the number of harvesters has dwindled from 2,000 in the mid-1980s to approximately 550 annually since 2002. To help reverse this trend, DNR unveiled a new management and restoration plan, the Oyster Restoration and Aquaculture Development Plan, for oysters and the State's oyster industry in December 2009. The plan increased the State's network of oyster sanctuaries from 9% to 24% of the bay's remaining quality oyster bars, established oyster aquaculture leasing opportunities and related financial assistance programs, and maintained 76% of the bay's remaining quality oyster habitat for a public oyster fishery.

Recycled oyster shells are used as setting material for new spat (baby oysters) to be planted back into the Chesapeake and Coastal Bays. Each recycled shell can become home to 10 new oysters as new oysters prefer to attach and grow onto other oyster shells. A healthy oyster reef filters the Chesapeake Bay's waters and provides habitat for an underwater community that furnishes life support for blue crabs and fish. Maryland harvested 123,613 bushels of oysters during the 2010 to 2011 oyster season.

The Oyster Recovery Partnership (ORP) is a cooperative coalition of partners that contribute toward a large-scale restoration program that plants disease-free oysters back into the Chesapeake Bay. ORP collects oyster shells from hundreds of restaurants, caterers, and seafood wholesalers throughout Maryland, Virginia, the District of Columbia, and Delaware.

DNR annually purchases between 30,000 and 50,000 bushels of fresh oyster shells at a cost of 50 cents per bushel under the Oyster Shell Purchase Program. Commercial

aquaculturists purchase oyster shells for between \$1.00 and \$1.50 per bushel from shucking houses.

State Revenues: General fund, TTF, and HEIF revenues will decrease by a minimal amount from fiscal 2014 through 2018. However, the amount of revenue loss depends on the number of individuals and businesses in the State that would opt to recycle oyster shells and the number of bushels of oyster shells recycled. Assuming 50,000 bushels of oyster shells are recycled and that no business reaches the cap of \$750, the revenue loss would be \$50,000 in fiscal 2014. **Exhibit 1** shows the estimated impact of the bill in fiscal 2014 through 2018 under these assumptions.

**Exhibit 1
Fiscal Impact
Fiscal 2014-2018**

| | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| General Fund | (\$42,485) | (\$43,334) | (\$44,201) | (\$45,775) | (\$46,691) |
| HEIF | (2,000) | (2,040) | (2,081) | (2,122) | (2,165) |
| TTF | (5,515) | (5,626) | (5,738) | (5,162) | (5,266) |
| <i>State</i> | (4,986) | (5,086) | (5,187) | (4,667) | (4,760) |
| <i>Local</i> | (529) | (540) | (551) | (496) | (506) |
| Total | (\$50,000) | (\$51,000) | (\$52,020) | (\$53,060) | (\$54,122) |

State Expenditures: The Comptroller’s Office reports that it would incur a one-time expenditure increase of \$106,320 to add the tax credit to the corporate and personal income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing. DNR can implement regulations with existing resources.

Local Revenues: Local governments receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease by \$529 in fiscal 2014 and by \$506 in fiscal 2018, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: SB 484 (Senator Dyson, *et al.*) - Budget and Taxation.

Information Source(s): Department of Natural Resources, Comptroller's Office,
Department of Legislative Services

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