

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
Third Reader

Senate Bill 884

(Senators Hough and Young)

Budget and Taxation

Ways and Means

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Frederick County - Property Tax - Small Business Tax Credit

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This bill alters specified eligibility requirements for a business entity in Frederick County to qualify for a specified property tax credit imposed on real property owned or leased by the business entity.

The bill takes effect June 1, 2016, and applies to taxable years beginning after June 30, 2016.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Frederick County property tax revenues continue to decrease in FY 2017 to the extent the property tax credits are granted. The amount of the decrease depends on the number of businesses that qualify for the tax credit and the amount of the tax credits that are issued.

**Small Business Effect:** Potential meaningful. Small businesses that qualify for the tax credit will pay less in local property taxes.

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Analysis

**Bill Summary:** The bill repeals specified eligibility requirements for new businesses and existing businesses and makes eligibility requirements the same for both types of businesses.

In order to qualify for the property tax credit, an existing business must (1) obtain at least 2,500 square feet of new or expanded premises by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing previously

unoccupied premises and (2) employ at least five individuals in new permanent full-time positions during a 24-month period, during which period the business entity also must obtain and occupy the new or expanded premises.

The property tax credit for a business is equal to a percentage of the amount of property tax imposed on the assessment of the new or expanded premises, as follows: (1) 40% in the first and second taxable years; (2) 30% in the third and fourth taxable years; (3) 20% in the fifth and sixth taxable years; and (4) 0% beginning in the seventh taxable year.

A property tax credit may not be granted until the first taxable year in which the county property tax imposed on real property owned or leased by the business entity increases due to the business entities qualifying investment in the new or expanded premises.

**Current Law:** Chapter 650 of 2012 authorized Frederick and Washington counties to grant a property tax credit against the county property tax imposed on real property owned or leased by a new or expanding business that creates new jobs, provided specified conditions are met.

In order to qualify for the property tax credit, and prior to obtaining the new or expanded premises or hiring employees to fill the new permanent full-time positions at the new or expanded premises, a business must provide written notification to the county stating (1) that the business entity intends to claim the property tax credit and (2) when the business entity expects to obtain the new or expanded premises and hire the required number of employees in the new permanent full-time positions.

An existing business in the county must (1) obtain at least an additional 1,500 square feet of new or expanded premises by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing previously unoccupied premises; and (2) employ at least one individual in a new permanent full-time position during a 12-month period, during which period the business entity also must obtain and occupy the new or expanded premises.

A new business locating in the county must (1) obtain at least 2,500 square feet of new or expanded premises by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing previously unoccupied premises and (2) employ at least five individuals in new permanent full-time positions during a 24-month period, during which period the business entity also must obtain and occupy the new or expanded premises.

The property tax credit for an existing business is equal to a percentage of the amount of property tax imposed on the assessment of the new or expanded premises, as follows: (1) 52% in the first and second taxable years; (2) 39% in the third and fourth taxable years; and (3) 26% in the fifth and sixth taxable years.

The property tax credit for a new business locating in the county is equal to a percentage of the amount of property tax imposed on the assessment of the new or expanded premises, as follows: (1) 30% in the first and second taxable years; (2) 20% in the third and fourth taxable years; and (3) 10% in the fifth and sixth taxable years.

Chapter 650 specified that the lessor of real property granted a property tax credit must reduce the amount of taxes for which a business is contractually liable under the lease agreement by the amount of any credit granted for improvements made by the business.

**Background:** Employment growth is one indicator of an economy's overall health. The total number and the percent change in new jobs created are widely used performance measures. Total employment in Maryland from 2010 to 2015 increased by 5.7%, resulting in a gain of 136,500 jobs. The highest employment growth, on a percentage basis, occurred in Anne Arundel and Howard counties. However, two counties, Allegany and Dorchester, experienced net decreases in employment during this period. **Appendix 1** shows the change in employment for each county from the first quarter in 2010 to the first quarter in 2015. Frederick County's employment grew by 7.7% over this period, which ranked seventh among the State's counties.

**Local Fiscal Effect:** Frederick County property tax revenues continue to decrease in fiscal 2017 to the extent the property tax credit is granted. The amount of the revenue decrease depends on the number of businesses that qualify for the tax credit and the amount of the credit, neither of which can be reliably estimated at this time. As a point of reference, **Exhibit 1** shows the number of commercial and industrial accounts in Frederick County and their total assessed value for fiscal 2016.

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**Exhibit 1**  
**Commercial and Industrial Real Property Accounts**  
**Frederick County**  
**Fiscal 2016**

	<b>Commercial</b>		<b>Industrial</b>	
	<b><u>Improved</u></b>	<b><u>Vacant</u></b>	<b><u>Improved</u></b>	<b><u>Vacant</u></b>
Accounts	2,040	611	262	273
Assessed Value	\$3,136,296,938	\$218,058,529	\$1,029,763,466	\$37,815,666

Source: State Department of Assessments and Taxation

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 320 (Frederick County Delegation) - Ways and Means.

**Information Source(s):** Frederick County, State Department of Assessments and Taxation, Department of Legislative Services

**Fiscal Note History:** First Reader - February 16, 2016  
min/hlb

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**Appendix 1**  
**Employment Growth in Maryland Counties – Over a Five-year Period**  
**First Quarter 2010 and 2015**

County	<u>Average Employment Within Jurisdiction</u>					<u>Jobs Per 1,000 Residents</u>		
	1st Q 2010	1st Q 2015	Difference	% Difference	Rank	1st Q 2015	Percent of State Average	Rank
Allegany	28,747	28,598	-149	-0.5%	24	392.0	92.7%	10
Anne Arundel	220,228	254,400	34,172	15.5%	1	454.2	107.4%	4
Baltimore City	320,403	327,162	6,759	2.1%	21	525.3	124.2%	1
Baltimore	355,189	362,695	7,506	2.1%	20	438.6	103.7%	7
Calvert	20,420	21,678	1,258	6.2%	10	239.2	56.6%	24
Caroline	8,192	8,879	687	8.4%	6	272.9	64.5%	21
Carroll	52,772	55,506	2,734	5.2%	12	330.7	78.2%	16
Cecil	26,916	29,484	2,568	9.5%	5	288.0	68.1%	19
Charles	38,924	40,762	1,838	4.7%	13	263.4	62.3%	22
Dorchester	10,591	10,542	-49	-0.5%	23	323.6	76.5%	18
Frederick	89,106	96,011	6,905	7.7%	7	394.0	93.2%	9
Garrett	11,069	11,399	330	3.0%	17	384.1	90.8%	12
Harford	78,828	88,102	9,274	11.8%	3	352.3	83.3%	15
Howard	141,169	159,531	18,362	13.0%	2	515.8	122.0%	2
Kent	7,179	7,668	489	6.8%	8	386.9	91.5%	11
Montgomery	433,226	452,359	19,133	4.4%	15	439.0	103.8%	6
Prince George's	292,271	298,817	6,546	2.2%	18	330.4	78.1%	17
Queen Anne's	12,292	13,661	1,369	11.1%	4	279.9	66.2%	20
St. Mary's	39,850	42,357	2,507	6.3%	9	383.7	90.7%	13
Somerset	6,417	6,505	88	1.4%	22	251.6	59.5%	23
Talbot	17,291	18,035	744	4.3%	16	479.1	113.3%	3
Washington	62,279	65,972	3,693	5.9%	11	441.1	104.3%	5
Wicomico	42,924	43,836	912	2.1%	19	431.7	102.1%	8
Worcester	18,216	19,053	837	4.6%	14	368.7	87.2%	14
Unallocated	56,817	64,803	7,986	14.1%				
<b>Maryland</b>	<b>2,391,316</b>	<b>2,527,815</b>	<b>136,499</b>	<b>5.7%</b>		<b>423.0</b>	<b>100.0%</b>	

Note: The employment growth rate was calculated by using average quarterly employment data. Employment growth statistics represent the available jobs within a jurisdiction, not the employment status for residents of the jurisdiction.

Source: *Employment and Payroll Annual Report*, Department of Labor, Licensing, and Regulation