

**Department of Legislative Services**  
 Maryland General Assembly  
 2016 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 275 (Chair, Ways and Means Committee)(By Request -  
 Departmental - Housing and Community Development)

Ways and Means

**Department of Housing and Community Development - Neighborhood and  
 Community Assistance Program - Community Investment Tax Credit**

This departmental bill increases, from \$3.5 million to \$7.0 million, the maximum sum of contributions eligible for a tax credit offered under the Neighborhood and Community Assistance Program in the Department of Housing and Community Development (DHCD). The bill also eliminates the requirement that specified local jurisdictions or authorized designees must approve a proposed project before DHCD can award a tax credit and instead requires DHCD to provide these local jurisdictions with written notice and a reasonable opportunity to comment on project proposals.

The bill takes effect July 1, 2016, and applies beginning with tax year 2017.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$671,200 in FY 2018 due to additional credits being claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$20,400 and Higher Education Investment Fund (HEIF) revenues decrease by \$8,400 in FY 2018. Future year revenue estimates reflect the maximum amount of credits awarded each year, the estimated amount of the credits claimed in each year, and the carry forward of credits from previous years. Expenditures are not affected.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	\$0	(\$671,200)	(\$1,342,300)	(\$1,677,900)	(\$1,677,900)
SF Revenue	\$0	(\$28,800)	(\$57,700)	(\$72,100)	(\$72,100)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$700,000)	(\$1,400,000)	(\$1,750,000)	(\$1,750,000)

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

**Local Effect:** Local highway user revenues decrease by \$2,000 in FY 2018 and by \$4,900 in FY 2021. Local expenditures are not affected.

**Small Business Effect:** DHCD has determined that the bill has a meaningful impact on small business (attached). The Department of Legislative Services disagrees with this assessment as discussed below.

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## Analysis

**Bill Summary/Current Law:** Chapter 82 of 2013 increased from \$2.0 million to \$3.5 million the maximum sum of contributions eligible for the community investment tax credit in each fiscal year. Accordingly, DHCD can award a maximum of \$1.75 million in tax credits in each fiscal year.

The bill eliminates the requirement under current law that specified local jurisdictions or authorized designees must approve proposed projects before DHCD can approve a tax credit application. Instead, the bill specifies that DHCD may not approve a tax credit application until after it has provided written notice and a reasonable opportunity to comment to the governing bodies of the specified local jurisdictions that are within the priority funding area (PFA) that benefit from the proposed project.

**Background:** The purposes of DHCD's Neighborhood and Community Assistance Program are to (1) help nonprofit organizations to carry out approved projects in PFAs; (2) encourage business entities to invest in PFAs; and (3) strengthen partnerships between public and private entities.

For each fiscal year, a nonprofit organization may submit to DHCD, for approval under the program, a proposal for a project to provide services to a PFA. The project may include community services, redevelopment assistance, job training for low-income individuals, education, and crime prevention. The proposal must include specified information, including the project to be conducted, the PFA that will benefit from the project, and the estimated project costs, among other things.

In considering a proposal and in determining the maximum amount of contributions eligible for tax credits, DHCD must consider any relevant factor, including the need for the project, the anticipated benefit to the PFA, the applicant's ability to successfully complete the project, and the geographic distribution of projects, among other things. DHCD may give preference to a proposal that benefits (1) a sustainable community designated by DHCD's Business Development Program or (2) a neighborhood conservation district that is locally designated in coordination with the program.

A business or individual can claim a tax credit for 50% of the contributions in excess of \$500 made to DHCD-approved projects conducted by nonprofit organizations in a PFA. The tax credit can be claimed against the personal, corporate, public service franchise, and insurance premiums taxes. An application for the tax credit must include the name of the approved project to which the business intends to contribute and certification of the value of any nonmonetary contribution.

The tax credit is in addition to any federal deduction for charitable donations. This deduction typically results in lower federal and State income tax liabilities. An example of the reduction in federal and State income tax liabilities from a \$100,000 donation is shown in **Exhibit 1**.

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**Exhibit 1**  
**Total Federal and State Benefits**  
**from Eligible Donation of \$100,000**

	<u>Corporation</u>	<u>Individual</u>
Federal Tax Benefit	\$35,000	\$28,000
State Tax Benefit	8,250	7,850
Community Investment Tax Credit	<u>50,000</u>	<u>50,000</u>
<b>Total Federal and State Tax Benefit</b>	<b>\$93,250</b>	<b>\$85,850</b>

Source: Department of Legislative Services

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**State Revenues:** The bill doubles the maximum sum of contributions eligible for the community investment tax credit. Accordingly, the maximum amount of credits DHCD can award in each year increases from \$1.75 million to \$3.5 million. As a result, general fund revenues will decrease by \$671,200 in fiscal 2018. TTF revenues will decrease by \$20,400 and HEIF revenues will decrease by \$8,400 in fiscal 2018.

This estimate is based on the history of the existing tax credit and the following facts and assumptions:

- the bill applies beginning with tax year 2017;
- DHCD awards the maximum amount of credits each year;
- 80% of credits are claimed against the personal income tax and the remaining 20% against the corporate income tax; and

- 40% of the tax credit is claimed in the current tax year, 40% is carried forward and claimed in the next tax year, and the remaining amount is carried forward in subsequent tax years.

**Exhibit 2** shows the estimated impact on State and local revenues from fiscal 2017 through 2021.

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<b>Exhibit 2</b>					
<b>State and Local Revenue Impacts</b>					
<b>Fiscal 2017-2021</b>					
	<u><b>FY 2017</b></u>	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>
General Fund	\$0	(\$671,200)	(\$1,342,300)	(\$1,677,900)	(\$1,677,900)
HEIF	0	(8,400)	(16,800)	(21,000)	(21,000)
TTF	0	(20,400)	(40,900)	(51,100)	(51,100)
MDOT	0	(18,400)	(37,000)	(46,200)	(46,200)
LHUR	0	(2,000)	(3,900)	(4,900)	(4,900)
<b>Total Revenues</b>	<b>\$0</b>	<b>(\$700,000)</b>	<b>(\$1,400,000)</b>	<b>(\$1,750,000)</b>	<b>(\$1,750,000)</b>

HEIF: Higher Education Investment Fund

TTF: Transportation Trust Fund

MDOT: Maryland Department of Transportation

LHUR: Local Highway User Revenues

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

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**Local Revenues:** Local highway user revenues will decrease as a result of credits claimed against the corporate income tax. Local highway user revenues will decrease by \$2,000 in fiscal 2018 and by \$4,900 in fiscal 2021, as shown in Exhibit 2.

**Small Business Impact:** Small businesses that make donations under the program may benefit from the funding increase proposed by the bill. It is not known how many of the donations under the current program are made by small businesses or how many small businesses may benefit from community projects. According to the Comptroller's Office, taxpayers claimed an average credit of \$1,680 in tax year 2013. Accordingly, the benefit provided to a small business that claims the credit is not expected to be significant. DHCD did not respond to a request for additional information on the program's impact on small businesses.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Housing and Community Development, Department of Legislative Services

**Fiscal Note History:** First Reader - February 11, 2016  
mel/jrb

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**ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES**

**TITLE OF BILL:** DHCD - Neighborhood and Community Assistance Program –  
Community Investment Tax Credit

**BILL NUMBER:** **HB 275**

**PREPARED BY:** Carol Gilbert, Assistant Secretary  
Department of Housing and Community Development

**PART A: ECONOMIC IMPACT RATING**

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND  
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND  
SMALL BUSINESSES

**PART B: ECONOMIC IMPACT ANALYSIS**

This proposed legislation could decrease State tax revenues by as much as \$3.5 million per year if all credits are claimed and certified. However, projects supported by the Community Investment Tax Credit will result in investment that more than offsets the decrease in revenues.