HB 872

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 872 (Chair, Ways and Means Committee)(By Request - Departmental - Commerce)

Ways and Means

Tax Credits - Enterprise Zones, RISE Zones, and Maryland Jobs Development Projects

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This departmental bill establishes the Maryland Jobs Development Tax Credit Program (JDTC), to be administered by the Department of Commerce (Commerce) and repeals the enterprise zone and Regional Institution Strategic Enterprise (RISE) zone income tax credit programs.

The bill takes effect July 1, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

State Effect: Net State revenues decrease by $1.5 million in FY 2018 due to the tax credits proposed by the bill and the repeal of specified tax credits. Future year estimates reflect the estimated number of eligible businesses, schedule of tax credit claims, and reduction in specified tax credits. General fund expenditures increase by $0.1 million in FY 2018 due to implementation costs at the Comptroller's Office and Commerce.

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	($1.2)	($3.7)	($11.0)	($17.3)	($23.8)
SF Revenue	($0.2)	($0.7)	($2.2)	($3.4)	($4.7)
GF Expenditure	$0.1	$0.1	$0.1	$0.1	$0.1
Net Effect	($1.6)	($4.5)	($13.3)	($20.8)	($28.6)

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

Local Effect: Net local highway user revenues decrease by a total of $16,000 in FY 2018 and by $320,000 in FY 2022. Local expenditures are not affected.

Small Business Effect: Commerce has determined that the bill will have a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: Under the JDTC program, a qualifying business that creates a minimum number of jobs may claim a tax credit for the specified percentage of wages paid to qualified jobs, not to exceed certain amounts. The program also provides enhanced credits for businesses creating a minimum number of jobs in certain counties or within an enterprise zone or RISE zone. Lastly, the program authorizes the Secretary of Commerce to award tax credits to businesses that the Secretary determines will create or retain jobs and will have a substantial and positive impact on the State and local economy.

The bill also repeals the enterprise zone and RISE zone income tax credits, shortens to 5 years the duration of an enterprise zone designation, alters certain eligibility requirements, and establishes additional reporting requirements for local jurisdictions.

Enterprise Zone Program

- *Eliminates Income Tax Credit:* Under current law, businesses located within an enterprise zone can generally claim two employment income tax credits – a standard credit and an enhanced credit for hiring economically disadvantaged employees. The bill eliminates these income tax credits and provides an enhanced JDTC credit for businesses located within a zone, as discussed below.

- *Decreases Zone and Focus Area Duration Periods:* The bill decreases, from 10 to 5 years, the duration of the designation of an enterprise zone and focus area within an enterprise zone.

- *Reporting Requirements and Assessment of Credit Effectiveness:* Commerce and the State Department of Assessments and Taxation (SDAT) must assess the program's effectiveness and report specified information about the credit annually. Each political subdivision must submit to Commerce and SDAT a detailed report on each enterprise zone located within its boundaries. After notifying a local jurisdiction that this required report has not been received, Commerce may revoke the enterprise zone designation if the local jurisdiction fails to promptly submit the report.

- *Eliminates Property Tax Credit Eligibility after Zone Expiration:* The bill eliminates the provision in current law that a business located in an enterprise zone continues being eligible for property tax credits for an additional five years after the expiration of the zone designation.

Regional Institution Strategic Enterprise Zone Program

The bill eliminates the employment tax credits that can be claimed by a business located within a RISE zone. The JDTC program established by the bill provides an enhanced credit for these businesses, as discussed below.

Jobs Development Tax Credit Program – Overview

Commerce must administer the tax credit application, approval, and certification process and is required to submit an annual report to the General Assembly detailing specified information about the program. The Secretary of Commerce may establish by regulation any other requirements necessary to implement the bill.

Businesses that create a minimum number of qualified positions, as defined by the bill, can claim a three-year refundable tax credit for the specified percentage of wages paid to these qualified positions, not to exceed certain amounts. The bill establishes an enhanced credit for businesses located in certain areas. The Secretary of Commerce may annually designate up to three projects as high impact economic development projects for businesses that create or retain jobs.

Jobs Development Tax Credit Program – Eligibility

A business must operate or conduct a trade or business in connection with a project in an eligible industry, as determined by Commerce in consultation with the Maryland Economic Development Council. Prior to taking the action that qualifies the business for the program, a business must notify Commerce of its intent to seek certification of an eligible project and begin hiring employees to fill the qualified positions at a facility within 12 months of providing this notification. The project must be located within a State priority funding area or be eligible for funding under Section 5-7B-05 or Section 5-7B-06 of the State Finance and Procurement Article. A business may not qualify if it is currently receiving a One Maryland tax credit, job creation tax credit, or enterprise zone income tax credit.

Jobs Development Tax Credit Program – Designations and Credit Values

Businesses that meet program requirements can claim a refundable tax credit against the income tax, insurance premium tax, or financial institutions franchise tax. The maximum credit that can be claimed in each tax year may not exceed $1.0 million. The value of the standard and enhanced credits depends on the number of jobs created, the wages of those jobs in the year the credit was claimed, and the location of the facility in which the jobs are created. Companies located in counties designated by Commerce as Tier I counties qualify for enhanced credits and lower minimum job creation requirements. Commerce may designate a county as a Tier I county if the county has (1) an annual average employment of less than 75,000 or (2) a median household income that is less than two-thirds of the median household income for the State. The designation of a county as Tier I indicates the highest level of need for economic development incentives, and any county that is not designated as a Tier I county is considered a Tier II county.

The credits can be taken for up to three tax years and are equal to:

- *Standard Credit:* A business that creates at least 20 qualified positions in a Tier II county can claim a credit equal to the lesser of $7,500 or 3.75% of the wages paid for the jobs in the year the credit is claimed.

- *Enhanced Credit:* A business that creates at least 10 qualified positions in a Tier I county can claim a credit equal to the lesser of $11,250 or 5.625% of the wages paid for the jobs in the year the credit is claimed.

- *High Impact Economic Development Projects:* A business with a project that receives a designation from the Secretary of Commerce as a high impact economic development project may earn a credit of up to $3.0 million, with the value and term of the credit determined by the Secretary.

In addition, a business that is located within an enterprise zone or RISE zone within a Tier II county can claim the enhanced credit if the business creates a minimum of 20 jobs. **Exhibit 1** shows the tax credit values and minimum job creation requirements proposed by the bill.

Exhibit 1
Proposed Credit Values and Minimum Job Creation Requirements

County	Credit %	Max/Job	Minimum Jobs
Tier I	5.625%	$11,250	10
Tier II	3.75%	7,500	20
Tier II – RISE/Enterprise zones	5.625%	11,250	20

Appendix 1 shows the counties that would currently qualify as a Tier I county. Appendix 1 also shows the counties that are currently designated as a qualified distressed county (QDC) under the One Maryland program. **Appendix 2** presents data on the unemployment rate, median household income, and individual poverty rates for counties that would qualify as a Tier I county.

Jobs Development Tax Credit Program – High Impact Economic Development Projects

The Secretary of Commerce may designate a project as a high impact economic development project if the Secretary determines that the project is expected to have a substantial positive impact on the State and local economy. In making this determination, the Secretary may consider all relevant factors, including the number and types of jobs created or retained by the project and the capital investment. A business may not receive more than one credit in each year.

Current Law:

Enterprise Zones

Businesses located within a Maryland enterprise zone are eligible for local property tax credits and State income tax credits. Real property tax credits are 10-year credits against local real property taxes on a portion of the qualifying real property improvements in the enterprise zone. SDAT reimburses local governments for one-half of the cost of the property tax credit. The income tax credit is based on wages paid to newly hired employees and can be taken over a one- to three-year period. The credits are based on the wages paid during the taxable year to each qualified employee and vary in value and length of time depending on whether the employee is certified from the Department of Labor, Licensing, and Regulation as being economically disadvantaged and if the business is located in a focus area. Commerce and the Comptroller are required to assess the effectiveness of the program.

Regional Institution Strategic Enterprise Zones

Chapter 530 of 2014 established the RISE zone program, which is administered by Commerce. RISE zones must be located in the immediate proximity of a private or public four-year institution or community college. A business may be eligible for (1) a property tax credit for local real and personal property taxes imposed on qualified property; (2) an income tax credit for the qualified employees hired by the business; and (3) priority consideration for assistance from Commerce financial assistance programs. For the purposes of the income tax credit, the business is considered to be located within an enterprise zone.

State Job Creation and Retention Credits

As discussed below, several State programs provide tax credits to businesses that create or retain jobs, including the job creation tax credit. In addition, the One Maryland, enterprise zone, and job creation tax credit programs promote employment and investment within distressed areas of the State.

Background:

State Job Tax Credits

Nebraska established the first state job creation tax credit in 1987, and numerous states enacted credits during the 1990s and 2000s. As of July 2016, 44 states have a broad-based job creation or retention credit. Credits are generally based on either the number of jobs created or the eligible employee wages. A total of 22 states have either a geographically targeted or population targeted tax credit. Of Maryland's nearby states, only the District of Columbia and North Carolina do not have a job creation tax credit.

Of the current State business tax credits that explicitly provide an incentive to create or retain jobs, the job creation tax credit is the only credit that can be classified as a broad-based employment tax credit. Two credits – enterprise zone and One Maryland – are geographically targeted credits whose goals are mostly to increase investment and jobs within economically distressed areas. The RISE zone credit is also geographically targeted but does target revitalization of distressed areas. The two remaining credits – the businesses that create new jobs and aerospace, electronics, or defense contract tax credits – were designed to provide tax incentives to specific firms that create or retain jobs.

Appendix 3 shows for each tax credit the value and maximum limit, whether the credit is refundable, if the credit is awarded once or over multiple years, and the eligible activity the credit is based on (credit base). The credit components and eligibility requirements vary significantly across programs as there are five different credit bases and maximum credit values ranging from $250 to $10,000 per eligible job. **Appendix 4** compares the total funding, average credit value, and total number of State employment tax credits.

Enterprise Zone Property Tax Credits

The Enterprise Zone Tax Credit Program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. The Secretary of Commerce may only designate an area as an enterprise zone if it is in a priority funding area and satisfies at least one criterion related to economic distress.

The State reimburses local governments for one-half of the cost of the enterprise zone property tax credit. From fiscal 2001 to 2014, State reimbursements to local governments totaled $131.2 million. In fiscal 2014, about 850 properties earned a total of $27.8 million in property tax credits, of which the State reimbursed $13.9 million. Since tax year 2000, an annual average of $900,000 in enterprise zone income tax credits have been claimed. About one-third of all enterprise zones have businesses that are concentrated within manufacturing, fabrication, transportation, warehousing, distribution, and research and development. This concentration typically results from either enterprise zone local standards restricting credit eligibility to these activities and industries or the establishment of the zone within an industrial or business park that has similar requirements.

Pursuant to the Tax Credit Evaluation Act, the Department of Legislative Services (DLS) evaluated the enterprise zone tax credit and made several recommendations in a report issued in August 2014. DLS concluded that enterprise zone tax credits are not effective in creating employment opportunities for nearby residents and that Commerce, SDAT, and local governments do not have a framework or metrics in place for measuring the effectiveness of the credit.

The DLS evaluation of the enterprise zone tax credit can be found here.

One Maryland Program

The One Maryland economic development tax credit was established to assist businesses with the costs of economic development projects undertaken in QDCs and specifically to encourage capital investment and job creation in those counties. A business in a qualifying industry that establishes or expands a business facility in a priority funding area and is located in a QDC may be entitled to an income tax credit of up to $5.5 million.

From calendar 2001 through 2010, businesses within the manufacturing industry claimed the largest amount of credits – of the 54 projects that received a total of $222.5 million in credits under the program, 18 were manufacturing projects that were awarded a total of $79.6 million in credits. Projects located in areas other than Baltimore City had a higher concentration of projects within the manufacturing industry, as these projects claimed the majority of credits in these counties.

In its evaluation of the One Maryland tax credit issued in August 2014, DLS noted that there was significant overlap between existing State tax credit and business assistance programs. DLS estimated that only 3, or 9%, of the 33 One Maryland projects in Baltimore City did not receive additional assistance from the specified programs. A little more than one-half of all projects received at least one type of additional assistance, while the remaining 39% received multiple types of additional assistance. The DLS evaluation of the One Maryland tax credit can be found here.

Job Creation Tax Credit

In its draft evaluation of the job creation tax credit issued in November 2016, DLS noted that:

- The job creation tax credit incentive is minor relative to the total cost of employing an individual, so the credit is unlikely to increase employment in most instances.

- There is a significant overlap between existing State employment tax credits and a lack of coordination in tax credit objectives, including for tax credits for employment within distressed areas of the State. The total amount of additional incentives provided by the job creation tax credit to these distressed areas is minor relative to the two State programs – enterprise zone and One Maryland – that specifically aim to increase economic activity and employment in distressed areas of the State. In addition, multiple programs providing inconsistent incentives do not provide clear signals that help influence business decisions in the desired manner.

- Those businesses that do claim the job creation tax credit are generally not reflective of the overall Maryland economy. Most of the job creation tax credits have been claimed by businesses in the manufacturing, transportation and warehousing, and finance and insurance industries, so businesses in many industries have not benefited from the tax credit. Minimum job creation and other eligibility requirements limit the ability of new or smaller businesses to receive the credit, so participating businesses are much more likely to be large established companies.

DLS recommended that the General Assembly consider eliminating the job creation tax credit or consolidating the credit with other employment tax credits. If considering the consolidation of the employment tax credits, DLS recommended that the General Assembly consider one program to increase economic growth within distressed areas and one program to promote broad-based job creation across the State, including provisions that target job creation for small and newly established businesses and businesses in high-growth industries. If the General Assembly considers job retention a goal, DLS recommended consolidating the existing job retention credits into one program with less complex and more streamlined eligibility requirements.

In addition, the report also made several recommended changes to the job creation tax credit. Legislation introduced in the 2017 session (SB 873/HB 1052) proposes to alter the program by implementing several of these recommendations.

The DLS draft evaluation of the job creation tax credit can be found here.

State Revenues: State revenues will decrease due to businesses claiming the tax credits proposed by the bill. Conversely, State revenues will increase due to the repeal of enterprise zone and RISE zone income tax credits. As a result, net State revenues are estimated to decrease by $1.5 million in fiscal 2018. **Exhibit 2** details the revenue impact of each provision in fiscal 2018 through 2022.

Exhibit 2
State and Local Revenue Impacts
($ in Millions)
Fiscal 2018-2022

	2018	2019	2020	2021	2022
JDTC					
Standard/Enhanced	$0.0	$0.0	($6.2)	($13.2)	($21.0)
High Impact	(2.0)	(5.0)	(8.0)	(9.0)	(9.0)
Total	**($2.0)**	**($5.0)**	**($14.2)**	**($22.2)**	**($30.0)**
Enterprise/RISE	$0.5	$0.6	$0.7	$0.7	$0.7
JCTC	0.0	0.0	0.3	0.8	0.8
Total	**$0.5**	**$0.6**	**$1.0**	**$1.5**	**$1.5**
Net Effect	**($1.5)**	**($4.4)**	**($13.2)**	**($20.7)**	**($28.5)**
General Fund	(1.2)	(3.7)	(11.0)	(17.3)	(23.8)
HEIF	(0.1)	(0.2)	(0.6)	(1.0)	(1.4)
TTF	(0.2)	(0.5)	(1.5)	(2.4)	(3.3)
MDOT	*(0.2)*	*(0.5)*	*(1.4)*	*(2.2)*	*(3.0)*
LHUR	*(0.02)*	*(0.05)*	*(0.1)*	*(0.2)*	*(0.3)*

HEIF: Higher Education Investment Fund
JCTC: Job Creation Tax Credit Program
JDTC: Jobs Development Tax Credit Program
LHUR: local highway user revenues
MDOT: Maryland Department of Transportation
RISE: Regional Institution Strategic Enterprise
TTF: Transportation Trust Fund

Source: Department of Legislative Services

The estimated amount of JDTC tax credits claimed in each year is based on data on the existing job creation tax credit, adjusted for the increased credit and minimum job creation thresholds proposed by the bill. The fiscal impacts of the bill are also based on the following facts and assumptions:

- The Secretary of Commerce will award two high impact economic development project tax credits in calendar 2017 and three annually beginning in 2018. The bill specifies that the amount and terms of these credits are to be determined by the Secretary. The bill limits to $1.0 million the maximum credit that can be claimed and specifies that tax credits can be claimed for up to three consecutive tax years.

- There is about a two-year lag between the year in which a business hires eligible individuals and claims either the existing job creation or new job development tax credits.

- The enterprise zone and RISE zone income tax credits are repealed effective in tax year 2017.

- A majority of businesses that would have claimed the job creation tax credit under current law will instead claim the tax credit proposed by the bill, resulting in a projected decrease in job creation tax credits claimed beginning in fiscal 2020.

The bill could be construed to allow the Secretary of Commerce to award high impact economic development project tax credits without any maximum limitations. To the extent this occurs, revenue losses will be significantly higher than estimated.

State Expenditures: General fund expenditures increase by $105,700 in fiscal 2018 due to implementation costs at the Comptroller's Office and Commerce, as described below.

The Comptroller's Office reports that it will incur a one-time expenditure increase of $32,000 in fiscal 2018 to add the business tax credit. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

DLS estimates that Commerce will need one program administrator to implement the program. As a result, general fund expenditures will increase by $73,700 in fiscal 2018. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Local Revenues: Local highway user revenues distributed to Baltimore City, counties, and municipalities will decrease as a result of the net increase in income tax credits claimed against the corporate income tax. As a result, net local revenues will decrease by $16,000 in fiscal 2018 and by $320,000 in fiscal 2022. Exhibit 2 details the impacts in fiscal 2018 through 2022.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau, Comptroller's Office; Department of Commerce; Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2017
mm/jrb

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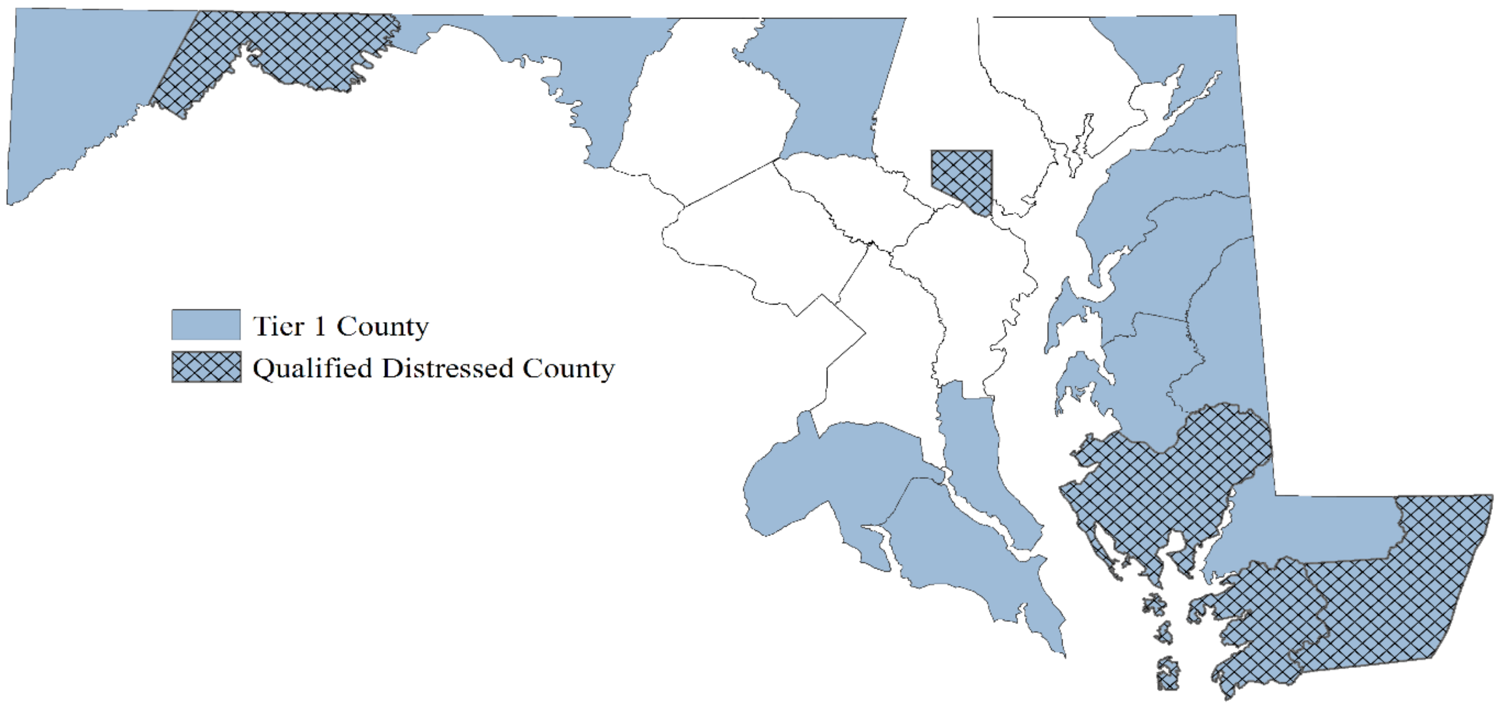
Appendix 1 – Tier I and Qualified Distressed Counties



Appendix 2 – Tier I and Qualified Distressed Counties
Median Household Income, Unemployment Rate, and Individual Poverty Rates

Tier I Counties	Median Household Income	Unemployment Rate	Poverty Rate
Allegany*	$40,550	6.3%	18.0%
Baltimore City*	42,240	6.4%	23.7%
Calvert	95,830	3.9%	5.8%
Caroline	52,470	4.8%	15.8%
Carroll	85,390	3.6%	5.6%
Cecil	66,400	5.1%	10.1%
Charles	90,610	4.3%	7.9%
Dorchester*	47,090	6.3%	16.5%
Garrett	45,430	5.7%	12.4%
Kent	58,150	4.8%	11.2%
Queen Anne's	85,960	3.8%	7.5%
Somerset*	35,150	7.0%	24.7%
St. Mary's	86,990	4.2%	7.9%
Talbot	58,230	4.3%	11.2%
Washington	56,230	5.0%	12.9%
Wicomico	52,280	6.0%	15.9%
Worcester*	56,770	9.0%	11.0%
State	**$74,550**	**4.4%**	**10.0%**
Tier I Counties	$56,770	4.9%	12.7%
Qualified Distressed Counties	42,240	6.0%	18.8%

*Currently designated as a qualified distressed county.

Appendix 3 – State Employment Tax Credits
Credit Values, Limitations, and Required Investment and Jobs

Program	Credit %	Credit Base	Years Awarded	Max Credit Per Job	Maximum Credit	Refund	Investment	Jobs
Job Creation	2.5%-5.0%	Wages	1	$1,000-$1,500	$1,000,000	No	None	25-60
Businesses/New Jobs:								
Standard Credit	40%-80%	Local property tax assessed on business facility/ personal property[1]	6	None	None	No	5,000 ft^2	10-25
Enhanced	90%		24	None	None	No	250,000 ft^2	1,250 (new jobs) or retain 2,500+500 new
Montgomery County	90%		24	None	None	No	700,000ft^2/ $150,000,000	Employ 1,100 including 500 new
One Maryland	100%	Start-up & project costs	1	$10,000	$5,500,000	Certain projects[2]	$500,000	25
Enterprise Zone:							Local standards may establish minimum job creation and capital investment thresholds[3]	
Property	30%-80%	Local property tax assessed on capital improvements	10	N/A	None	N/A		
Employment	N/A	Per employee	1	$1,000-$1,500	None	No		
Employment – Targeted	N/A	Per employee	3	$1,000-$4,500	None	No		
AEDC Project	N/A	Per employee	5	$250	7,500,000[4]	Yes	$25,000,000	Retain 10,000

[1] 65% of the credit is applied against local property taxes and 35% against State business income taxes.
[2] If a project meets specified requirements the credit is partially or fully refundable.
[3] In 2014, 17 of 30 enterprise zones had minimum job creation and investment requirements.
[4] A business can earn up to three credits (maximum value $2.5 million) annually. It is estimated that one company will earn three maximum credits annually during the five years.
AEDC: aerospace, electronics, or defense contract

Source: Department of Legislative Services

Appendix 4 – State Employment Tax Credits
Total Credits, Average Annual Claimants, and Credit Value

($ in Millions)

Program	**Local**	**State**	**Total**	**Total Claimants**	**Average Credit**
Job Creation	$0.0	$21.8	$21.8	117	$186,300
Business/New Jobs[1]					
Standard	$8.0	$4.3	$12.3	15	$817,600
Enhanced	17.2	9.3	26.5	1	43,098,600
Total	**$25.2**	**$13.6**	**$38.8**	**16**	**$3,460,100**
One Maryland	$0.0	$236.8	$236.8	45	$5,262,000
Enterprise Zone					
Property/Investment	$146.5	$146.5	$293.0	673	$436,000
Income/Employment	0.0	12.3	12.3	104	10.900
Total	**$146.5**	**$158.8**	**$305.3**	**776**	**$393,300**
AEDC	$0.0	$37.5	$37.5	1	$37,500,000
Total	**$171.7**	**$468.5**	**$640.2**	**955**	**$670,100**

AEDC: aerospace, electronics, or defense contract

[1] Data is for Montgomery County only.

Note: Number of claimants is the estimated average number of unique claimants for each program. Average credit is the estimated total value of the credit including all of the years that a business can claim a multi-year credit. For the enhanced businesses that create new jobs credit, the estimated average value is projected through fiscal 2026 for the remaining eligible amounts.

Source: Comptroller’s Office; Department of Commerce; State Department of Assessments and Taxation; Department of Legislative Services

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES (SFY 2015)

TITLE OF BILL: Maryland Jobs Development Credit – Establishment and Enterprise Zone Modernization

BILL NUMBER: HB 872

PREPARED BY: Mikra Krasniqi (Maryland Department of

Commerce) PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

X WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The two-part proposal that replaces One Maryland Tax Credit and the Enterprise Zone Tax Credit is expected to have a meaningful positive impact on startups, small, and young businesses. The Maryland Jobs Development Credit (MJDC) will create jurisdiction-based two-tier system; businesses based in Tier One (mostly rural and or distressed counties with fewer than 75,000 jobs) that will create 10 jobs will receive a 75 percent credit on withholding taxes while Tier Two companies that will create 20 or more jobs will receive a 50 percent credit. Businesses that locate within designated enterprise zones in Tier Two jurisdictions will receive Tier One-level benefits.

The program is designed to support businesses of all sizes that commit to increasing employment within the State. Incentives are higher for companies located within Tier One jurisdictions or within Enterprise Zones within Tier Two counties. The 75 percent refundable tax credit on all withholding taxes paid to the State for three years will be especially helpful for young and small business that need seed capital and financing to help them grow. While benefits for companies located outside of enterprise zones in Tier Two jurisdictions are somewhat lower (50 percent refund on withholding taxes) the three-year long benefits apply the same as with Tier One companies.

MJDC is important to small businesses under 50 employees because it reduces the number of jobs that must be created to claim a credit. Most existing programs require a minimum of 25 new jobs to claim a much lower credit amount, and this credit amount is not refundable. While most very small businesses may not create the minimum number of jobs required to receive this credit, research shows that small business establishments are the bread and butter of firm creation.

The annual average of new business establishments for very small firms in Maryland during 2010-13 was 8,221. To put this in perspective, it is important to note that out of 9,485 new firms formed in 2013, in Maryland, 8,912 or 94% were establishments with 1-9 workers. Similarly, evidence shows that startups and young companies are the most vibrant in creating new jobs but a significant number of them fail to grow beyond the first year. And while these young firms may need more than just financial assistance to expand, the availability of capital seed to address workforce needs, physical infrastructure, and other basic investments that enable businesses to grow is critical for these firms to be able to weather challenges of expansion. Creating a refundable tax credit will assist these companies in obtaining the funding that they need and allow them to grow more quickly and hire more Marylanders.

In 2012, for example, Maryland's small firms (fewer than 50 workers) generated sales of over$102.3 billion and employed more than 579,000 workers. These small firms tend to also have higher proportion of ownership among minorities and women than larger firms. Over 19 percent of all employees in small firms work in women-owned firms, for example, while only 5 percent of workers in large firms (50 employees or more) work in women-owned firms.