

Department of Legislative Services  
 Maryland General Assembly  
 2017 Session

FISCAL AND POLICY NOTE  
 Third Reader

Senate Bill 416

(Senator Middleton, *et al.*)

Budget and Taxation

Ways and Means

**Income Tax Credit - Qualified Farms - Food Donation Pilot Program**

This bill creates a tax credit against the State income tax for eligible food donations made by a qualified farm located in Anne Arundel, Calvert, Charles, Montgomery, Prince George’s, or St. Mary’s counties. A maximum of \$250,000 in credits may be awarded annually in tax years 2017, 2018, and 2019.

The bill takes effect July 1, 2017.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$250,000 annually in FY 2018 through 2020 due to credits claimed against the income tax. General fund expenditures increase by \$55,000 in FY 2018 due to implementation costs at the Maryland Department of Agriculture (MDA) and the Comptroller’s Office. Future year estimates reflect ongoing operating expenses at MDA and termination of the bill.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$250,000)	(\$250,000)	(\$250,000)	\$0	\$0
GF Expenditure	\$55,000	\$23,000	\$23,800	\$0	\$0
Net Effect	(\$305,000)	(\$273,000)	(\$273,800)	\$0	\$0

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

**Local Effect:** Local highway user revenues will decrease in FY 2018 through 2020 as a result of any credits claimed against the corporate income tax. Local expenditures are not affected.

**Small Business Effect:** Minimal. A limited number of farms that are small businesses will benefit from the tax credit program.

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## **Analysis**

**Bill Summary:** The value of the credit is equal to 50% of the value of the eligible food donation (75% for certified organic produce), not to exceed \$5,000 in the taxable year. The Secretary of Agriculture can increase this limit by up to an additional \$5,000 in the taxable year. Any unused amount of the credit may be carried forward for five taxable years. Credits may not be issued after December 31, 2019.

To qualify, eligible donations must be made to an organization that is authorized by MDA to act as a tax credit certificate administrator. These administrators are required to issue tax credit certificates to eligible farms upon receipt of an eligible food donation and provide within 30 days a copy of the certificate to the Comptroller and MDA.

The Secretary of Agriculture is required to:

- publish weekly the categories and value of certified organic produce and eligible food donations;
- establish a process, in consultation with the Comptroller, to certify tax credit certificate administrators;
- notify tax credit certificate administrators to stop issuing certificates if a total of \$200,000 in certificates has been issued in a calendar year;
- adopt regulations, in consultation with the Comptroller, that establish the procedures for issuing remaining certificates once the total amount of certificates issued has reached the limit above;
- adopt regulations, in consultation with the Comptroller, implementing the tax credit program; and
- in consultation with the Comptroller, report annually to the Governor and General Assembly on the use and impact of the tax credit.

**Current Law:** No similar State tax credit exists.

Taxpayers may generally claim a subtraction modification for the value of farm products donated to a gleaning cooperative. The farm products must be suitable for human consumption when donated and must either be donated to or harvested or collected, free of charge, by the cooperative. A gleaning cooperative is a tax-exempt nonprofit organization that is organized and operated to provide and distribute food free of charge to needy individuals, including unemployed and low-income individuals. The subtraction modification equals the amount by which the wholesale market value of the donated farm

products exceeds the amount attributable to the donated farm products that the individual claims as a deduction for a charitable contribution under Section 170 of the Internal Revenue Code.

**Background:** Chapters 292 and 293 of 2013 established the Task Force to Study the Implementation of a Hub and Spoke Program in the Southern Maryland Region, including Charles, Calvert, and St. Mary’s counties, to provide the low-income, working poor, and unemployed populations of that region with fresh farm products.

The final report of the task force, issued in December 2013, recommended creating a pilot distribution system in Southern Maryland whereby fresh produce is donated to a “hub” and then repackaged and distributed to “spokes” for dispersal into the community. The task force recommended creating a tax credit, which it determined would increase the amount of local food donations.

**State Revenues:** The bill authorizes an annual maximum of \$250,000 in credits in tax years 2017 through 2019. As a result, general fund revenues decrease by \$250,000 in fiscal 2018 through 2020, assuming the maximum amount of credits is claimed against the personal income tax. Credits claimed against the corporate income tax will also decrease Transportation Trust Fund (TTF) and Higher Education Investment Fund revenues. To the extent MDA does not award the maximum amount of credits in each year, revenue losses will be less than estimated.

**State Expenditures:** General fund expenditures increase by \$55,000 in fiscal 2018 due to implementation costs at MDA and the Comptroller’s Office.

MDA advises that it would incur additional costs as a result of hiring one part-time contractual marketing specialist. As a result, general fund expenditures increase by \$23,000 in fiscal 2018. The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$32,000 in fiscal 2018 to add the tax credit to the income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Seasonal Contractual Position	0.50
Salary and Fringe Benefits	\$18,124
Operating Expenses	4,875
<b>MDA Expenditures</b>	<b>\$22,999</b>
<b>Comptroller Expenditures</b>	<b>\$32,000</b>
<b>Total FY 2018 Expenditures</b>	<b>\$54,999</b>

**Local Revenues:** Local governments receive a portion of TTF revenues in the form of local highway user revenues for the purpose of constructing and maintaining local roads.

Accordingly, local highway user revenues will decrease as a result of any credits claimed against the corporate income tax in fiscal 2018 through 2020.

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### **Additional Information**

**Prior Introductions:** SB 249 of 2016 passed the Senate and passed second reading in the House, but no further action was taken. SB 280 of 2015 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 359, received a hearing in the House Ways and Means Committee, but no further action was taken. SB 670 of 2014 received a favorable with amendments report from the Senate Budget and Taxation Committee, passed the Senate, and received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, HB 1083, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** HB 472 (Delegates Jameson and Patterson) - Ways and Means.

**Information Source(s):** Charles, Montgomery, Prince George's, and St. Mary's counties; Maryland Association of Counties; Comptroller's Office; Maryland Department of Agriculture; Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2017  
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