Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 966 (Senators Ferguson and Rosapepe)
Budget and Taxation Ways and Means

RISE Zones - Expansion and Income Tax Credit

This bill expands the Regional Institution Strategic Enterprise (RISE) zone program by (1) creating an additional income tax credit for qualified businesses located within the zones; (2) increasing to six the maximum number of zones the Secretary of Commerce may award within a county or municipality; and (3) removing the restriction that the Secretary of Commerce may not designate a zone within a development district established under Title 12 Subtitle 2 of the Economic Development Article. The Department of Commerce (Commerce), in consultation with the Maryland Technology Development Corporation (TEDCO), can issue in each tax year a maximum of $3 million in total tax credits on a first-come, first-served basis. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease by up to $3 million annually beginning in FY 2019 due to tax credits claimed against the income tax. State revenues will also decrease to the extent the Secretary of Commerce designates additional RISE zones. Expenditures are not affected.

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	($3.0)	($3.0)	($3.0)	($3.0)	($3.0)
Expenditure	0	0	0	0	0
Net Effect	($3.0)	($3.0)	($3.0)	($3.0)	($3.0)

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

Local Effect: Local highway user revenues decrease beginning in FY 2019 as a result of any credits claimed against the corporate income tax. Property tax revenues in counties and municipalities in which additional RISE zones are designated may decrease due to additional property tax credits. Local expenditures are not affected.

Small Business Effect: Potential meaningful. Small businesses that claim the credit will benefit from reduced tax liabilities.

Analysis

Bill Summary: A business entity is a technology or innovation-related business with its principal place of business located in a RISE zone and is not required to work with or develop the intellectual property of a qualified institution. A business is not eligible if it has received a tax credit in one of the three previous tax years.

The tax credit is equal to 50% of the increase in the business entity's gross revenue attributable to activity in the RISE zone over the preceding tax year. Commerce may not issue a tax credit in an amount exceeding $50,000. The amount of the credit may not exceed the tax liability imposed in the year. Any unused amount of the credit can be carried forward to three tax years.

Taxpayers seeking the tax credit must apply to Commerce; applications are approved on a first-come, first-served basis until the total cap for the tax year is reached. The Comptroller's Office, in consultation with Commerce, must adopt regulations to implement the tax credit.

Current Law:

Tax Credit Eligibility

Tax credits may be awarded to a business entity that (1) moves into or locates in a RISE zone on or after the date that the zone is designated or (2) is located within the zone prior to designation if the business entity makes a significant capital investment or expansion of its labor force after a RISE zone is designated. Regulations adopted by Commerce require each zone to have criteria that determine the minimum capital investment and labor force increase that a business must undertake to qualify for tax credits. A business may not qualify for tax credits unless Commerce, in consultation with the county or municipality in which the zone is located, certifies that the business and its location is consistent with the target strategy of the zone.

A local government must grant a property tax credit against local real property taxes imposed on the eligible assessment of qualified property owned by a business entity. A business entity is a person who operates or conducts a trade or business, and it includes a person who operates, develops, constructs, or rehabilitates real property if the real property is intended for use primarily as single or multifamily residential property and is partially devoted to a nonresidential use. Qualified property is real property that is not used for residential purposes, used in a trade or business by a business entity, and located in a RISE zone. State property taxes imposed on real property are not affected.

Tax Credit Values

The amount of the property tax credit is based on a specified percentage of assessment increases resulting from the value of real property improvements, which is calculated by the State Department of Assessments and Taxation. Enhanced credits are granted if the property is located within a State enterprise zone or focus area within an enterprise zone.

As shown in **Exhibit 1**, the credit is applied to the tax imposed on 50% of the eligible assessment during the first year and 10% in the second through fifth year. For qualified property within an enterprise zone, a business can receive an 80% credit for the five-year period, and for qualified property within a focus area of an enterprise zone, a business can receive a 100% credit for the five-year period.

If the RISE zone in which the business is located is renewed by Commerce, a business may claim an additional property tax credit equal to 10% of the eligible assessment in years 6 through 10. The governing body of a county or municipality may increase by local law the value of the credit shown in Exhibit 1.

Exhibit 1
RISE Zone Property Tax Credit
Percentage of Eligible Property Assessment

Taxable Year	Percentage
1	50%
2-5	10%
6-10*	10%

RISE: Regional Institution Strategic Enterprise

*Business may receive a credit of 10% in years 6-10, but only if the zone is redesignated by the Department of Commerce.

Source: Department of Legislative Services

A qualified business entity within an enterprise and RISE zone may claim enterprise zone income tax credits. There are two types of income tax credits: a general income tax credit and an enhanced income tax credit for hiring economically disadvantaged employees. As shown in **Exhibit 2,** the general income tax credit is a one-time, $1,000 credit per new employee filling a newly created position or $1,500 for each qualified new employee in a focus area. For economically disadvantaged employees, the credit increases to a total of $6,000 per new employee or $9,000 per new employee in a focus area. The tax credit for economically disadvantaged employees is claimed over a three-year period.

Exhibit 2
Enterprise Zone and RISE Zone
Income Tax Credit

Enterprise/RISE Zone	
Regular employee	$1,000 per employee (one time)
Economically disadvantaged employee	$6,000 per employee (over three years)
Focus Area	
Regular employee	$1,500 per employee (one time)
Economically disadvantaged employee	$9,000 per employee (over three years)

RISE: Regional Institution Strategic Enterprise

Source: Department of Legislative Services

Background: 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. Three RISE zones have been approved to date – the first is located next to the University of Maryland, Baltimore Campus, in the university's BioPark; the second is located near the campus of the University of Maryland, College Park Campus; and the third is located next to the University of Maryland Baltimore County.

State Revenues: The bill expands the RISE zone program by creating an additional income tax credit for qualified businesses located within the zones beginning in tax year 2018. Commerce, in consultation with TEDCO, can issue a maximum of $3 million in total tax credits each year on a first-come, first-served basis. As a result, general fund revenues will decrease by up to $3 million annually beginning in fiscal 2019. To the extent tax credits are claimed against the corporate income tax, a portion of tax credits claimed will decrease Transportation Trust Fund and Higher Education Investment Fund revenues.

State revenues will also decrease to the extent the Secretary of Commerce designates additional RISE zones as a result of the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce; Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2018
mm/hlb Third Reader - March 21, 2018
Revised - Amendment(s) - March 21, 2018

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510