HB 173

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 173 (Chair, Ways and Means Committee)(By Request - Departmental - Commerce)

Ways and Means Budget and Taxation

Economic Development - Job Creation Tax Credit - Sunset Extension

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This departmental bill extends the termination date for the job creation tax credit to January 1, 2022. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by $3.3 million annually in FY 2020 and 2021 as a result of tax credits being claimed against the corporate and personal income tax. Transportation Trust Fund (TTF) revenues decrease by $0.5 million and Higher Education Investment Fund (HEIF) revenues decrease by $0.2 million annually in FY 2020 and 2021. TTF expenditures decrease by $71,000 annually in FY 2020 and 2021 due to a reduction in local highway user revenue grants.

($ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	($3.3)	($3.3)	$0	$0	$0
SF Revenue	($0.7)	($0.7)	$0	$0	$0
SF Expenditure	($0.1)	($0.1)	$0	$0	$0
Net Effect	($3.9)	($3.9)	$0.0	$0.0	$0.0

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

Local Effect: Local highway user revenues decrease by $71,000 annually in FY 2020 and 2021. Local expenditures are not affected.

Small Business Effect: The Department of Commerce (Commerce) has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: The job creation tax credit provides a tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. Businesses must be primarily engaged in a qualifying business activity. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 120% of the State minimum wage. A business must notify Commerce of its intent to seek certification before hiring employees. A final application can be submitted to Commerce after a minimum number of jobs have been created and the jobs have been filled for at least 12 months.

An eligible business must create within a 24-month period at least 60 jobs. The job creation threshold is lowered to (1) 25 if the new jobs are created within a State priority funding area (PFA) and (2) 10 if the jobs are created within a county with (a) an annual average employment of less than 75,000 or (b) a median household income that is less than two-thirds of the statewide median household income. Baltimore City and Allegany, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Garrett, Kent, Queen Anne's, St. Mary's, Somerset, Talbot, Washington, Wicomico, and Worcester counties currently meet one of these requirements.

The credit is equal to $3,000 for each new job. An enhanced credit of $5,000 can be claimed if the jobs are created within a revitalization area. A revitalization area includes (1) State enterprise zones; (2) federal empowerment zones; and (3) sustainable communities as designated by the Department of Housing and Community Development.

Commerce can issue in each year a maximum of $1.0 million in tax credits to a single taxpayer and a total of $4.0 million in tax credits on a first-come, first-served basis.

Background: From fiscal 2002 through 2016, Commerce issued 208 certifications to 101 businesses that reported creating 17,692 jobs. Most job creation tax credits have been claimed by businesses in the transportation and warehousing industries (about one-quarter) followed by manufacturing businesses (one-fifth). Anne Arundel County, with 3,194 jobs or a little less than one-fifth of all jobs, had the highest number of reported jobs, while Baltimore County had the most projects (43). Credit activity is not concentrated within these counties, however, as eight counties have 500 or more reported jobs. Only 23 certifications through 2016 have not been located within a PFA; as a result, about 90% of all credits have been certified for businesses in PFAs. Fewer credit certifications (just over one-third) have been within revitalization zones.

In response to concerns about the impacts of tax credits, Chapters 568 and 569 of 2012 established the Tax Credit Evaluation Act, a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee. The committee evaluated the job creation tax credit and recommended several changes to the program. Chapter 489 of 2017, introduced at the request of the committee, included these recommended changes.

The Act altered the program by (1) increasing the value of the tax credit; (2) allowing a business to claim the full value of the credit in one tax year; (3) limiting to $4.0 million the annual amount of credits Commerce may award; (4) lowering the minimum number of qualifying jobs that must be created in order to claim the credit in certain counties; (5) requiring that each job that qualifies for the credit is paid at least 120% of the State minimum wage; and (6) altering certain tax credit verification and reporting requirements.

State Revenues: The bill extends to January 1, 2022, the termination date of the job creation tax credit. A maximum of $4.0 million in credits can be awarded in each tax year. Commerce advises that it anticipates awarding the maximum amount of tax credits in each year. As a result, general fund revenues will decrease by $3.3 million annually in fiscal 2020 and 2021. TTF revenues will decrease by $525,000 and HEIF revenues will decrease by $216,000 annually in fiscal 2020 and 2021. **Exhibit 1** shows the estimated State revenue impacts resulting from the proposed extension.

Exhibit 1
Projected Impact on State Revenues
Fiscal 2020-2024

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Fund	($3,259,000)	($3,259,000)	$0	$0	$0
HEIF	(216,000)	(216,000)	0	0	0
TTF	(525,000)	(525,000)	0	0	0
Total State Revenue	**($4,000,000)**	**($4,000,000)**	**$0**	**$0**	**$0**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

State Expenditures: TTF expenditures for local highway user revenue grants will decrease as a result of credits claimed against the corporate income tax. TTF expenditures will decrease by $71,000 annually in fiscal 2020 and 2021.

Local Revenues: Local highway user revenues will decrease by $71,000 annually in fiscal 2020 and 2021.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History:	First Reader - February 5, 2019
mag/hlb	Third Reader - April 4, 2019
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Economic Development - Job Creation Tax Credit - Sunset Extension

BILL NUMBER: HB 173

PREPARED BY: Mikra Krasniqi, 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

This proposal would amend the Job Creation Tax Credit (JCTC) program by extending its sunset from January 1, 2020 to January 1, 2027. The JCTC program, which provides a tax credit to business that expand or stablish a new facility in Maryland by creating net new jobs, was amended during the 2017 legislative session, but the sunset remains, January 1, 2020. Under the program, the job creation as reported by businesses increased from 511 in FY 2015 to 958 in FY 2017. Currently, any job created before end of 2019 would qualify for the JCTC, however, in order to avoid confusion or ensure no interruption in the program, it is necessary to extend the sunset beyond this date.

How would the proposal help small businesses?
Among the most important amendments to the program during the 2017 legislative session was the change in statutory requirements reducing the number of minimum jobs created from 24-60 to 10-60 jobs. This created an opportunity for small businesses to benefit from the reformed program, given that the previous minimum job requirement was deemed too high, especially for small firms or startups. The new job creation threshold is particularly helpful for those jurisdictions where the requirement for the entity is is minimum 10 jobs (See table below) .

Counties with 10 Jobs Minimum		
Allegany	Charles	Somerset
Baltimore City	Dorchester	Talbot
Calvert	Garrett	Washington
Caroline	Kent	Wicomico
Carroll	Queen Anne's	Worcester
Cecil	Saint Mary's	

By extending the program, small businesses would continue to benefit in a number of ways from the lowered threshold of minimum job requirements. In addition to providing more clarity, the extension would provide reliability and a predictable financial incentive for small firms that rely on assistance. This is especially important for those businesses located in rural and less populated areas.