SB 979

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 979 (Senator Hester, *et al.*)
Budget and Taxation

Income Tax Credit - Value-Added Processing Expenses

This bill creates a credit against the State income tax for 25% of qualified capital expenses made in connection with value-added processing conducted in the State if the expenses incurred by the individual or corporation exceed $10,000. The Department of Commerce (Commerce) is required to administer the tax credit and may award a maximum of $1.0 million in credits annually. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by up to $1.0 million annually beginning in FY 2022 due to credits claimed against the income tax. General fund expenditures increase by $76,200 in FY 2021 due to administrative costs at Commerce and the Comptroller's Office. Future year estimates reflect ongoing operating expenditures.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	$0	($1,000,000)	($1,000,000)	($1,000,000)	($1,000,000)
GF Expenditure	$76,200	$70,000	$71,700	$74,100	$76,700
Net Effect	($76,200)	($1,070,000)	($1,071,700)	($1,074,100)	($1,076,700)

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

Local Effect: Local highway user revenues decrease to the extent credits are claimed against the corporate income tax beginning in FY 2022. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: Qualified capital expenses are defined as all expenditures made by the taxpayer for the purchase or installation of equipment for use in value-added processing. Value-added processing is a process that transforms a raw agricultural, silvicultural, or aquacultural product into a new product. Qualified capital expenses do not include any federal or State grant funding applied toward the purchase or installation of the equipment.

An individual or corporation may not claim the wineries and vineyards tax credit for qualified capital expenses that the taxpayer has claimed a credit for under the bill, and likewise, a taxpayer that claims a wineries and vineyards tax credit may not claim the tax credit under the bill for the same qualified capital expenses.

The bill specifies the procedures for applying for the tax credit, certifying the tax credit, and claiming the tax credit. An individual or corporation seeking the tax credit must apply to Commerce for certification of the eligible expenses it incurs; if the total amount of credits applied for in the application period exceeds the total amount available, Commerce must reduce the amount of the credit by the proportionate amount of the excess. Any unused amount of the credit can be carried forward for 15 tax years.

Commerce and the Comptroller must jointly adopt regulations implementing the tax credit application, approval, and monitoring processes. The bill specifies additional regulations that the Comptroller must adopt relating to the credit.

Current Law: Chapter 659 of 2013 created a nonrefundable credit against the State income tax for 25% of qualified capital expenses made to either establish a new winery or vineyard or make capital improvements to an existing winery or vineyard in the State. Commerce is required to administer the credit and is authorized to award a maximum of $500,000 in credits annually. An organization or individual seeking the tax credit must apply to Commerce for certification of the eligible expenses it incurs; if the total amount of credits applied for in the application period exceeds the total amount available, Commerce must reduce the amount of the credit by the proportionate amount of the excess. Any unused amount of the credit can be carried forward for 15 tax years. The tax credit terminates on June 30, 2021.

State Revenues: Tax credits may be claimed beginning in tax year 2020. Commerce must certify credits by December 15 of the calendar year following the end of the taxable year in which qualified expenses were paid or incurred. Thus, it is assumed that revenue losses will begin in fiscal 2022 for credits earned during tax year 2020. As a result, general fund revenues decrease by $1.0 million annually beginning in fiscal 2022. This estimate assumes that Commerce awards the maximum authorized amount of credits in each tax year and tax credits are claimed against the personal income tax. To the extent tax credits are claimed against the corporate income tax, a portion of the tax credits claimed will decrease revenues for the Transportation Trust Fund and the Higher Education Investment Fund.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of $35,000 in fiscal 2021 to add the tax credit to personal and corporate income tax forms. This amount includes data processing changes to the income tax return processing and imaging systems and system testing.

Commerce requires one tax specialist to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by $41,172 in fiscal 2021, which assumes a six-month start-up delay from the bill's July 1, 2020 effective date. This estimate reflects the cost of hiring the tax specialist to certify tax credits and oversee the program. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	$35,964
Other Operating Expenses	5,208
Commerce Expenditures	**$41,172**
Comptroller Expenditures	**$35,000**
Total FY 2021 State Expenditures	**$76,172**

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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