

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 240 (Delegate Gordon, et al.)
Ways and Means

Enterprise Zones - Income Tax Credits for New Businesses

This bill adds to the ways in which an area can qualify to be designated as an enterprise zone, and allows a tax credit for eligible economic development projects.

Fiscal Summary

State Effect: General and special fund revenues could decline by an indeterminate amount as described below. Revenues could increase indeterminately if economic development is stimulated above that which is going to occur absent this bill. Expenditures would not be affected in FY 1997.

Local Effect: Local revenues could decrease due to property tax credits in enterprise zones, and could increase due to the required addition modification for any credits claimed against the individual income tax, and to the extent that economic development is stimulated above that which will occur absent this bill. Expenditures would not be affected.

Fiscal Analysis

Bill Summary: The Secretary of the Department of Business and Economic Development (DBED) is authorized to designate an area as an enterprise zone if the average rate of unemployment in that area is greater than the average rate of unemployment in the State for each of the last five years.

The bill also allows business entities new to the State to claim a credit, against the State income tax only, of the lesser of 50% of the project costs or the State income tax on the business income generated by the project, if the project is approved as eligible by the Secretary. The credit can be carried over into following years if it exceeds the income tax due on income generated by the project. If the credit is claimed, the entity must include the

credit as an addition modification to income.

The Secretary of DBED must adopt regulations to specify procedures to determine eligibility and criteria for eligibility to claim the credit.

The bill is effective July 1, 1996.

State Revenues: The revenue loss caused by this bill is indeterminate. It depends on the number of additional enterprise zones and projects made eligible, and those generated by this bill.

Currently, about 5% of the State is eligible for enterprise zone status, although only 0.3% of the land area has been designated as such by the Secretary of DBED. This bill could make 30% to 40% of the State eligible. It is not possible to determine the number and size of new enterprise zones, the number of business entities which could claim the credit under this bill, or the number of eligible projects which would be induced by this bill.

Revenues will decline by an indeterminate amount if enterprise zones are expanded because the current property tax credits will apply to existing businesses, and because the current income tax credits for certain wages paid in an enterprise zone could be claimed by existing businesses which are planning to expand regardless of the existence of enterprise zones.

Any benefit to the State in terms of increased tax revenues both, direct and indirect, resulting from the incentive effects of additional enterprise zones and the tax credits for economic development projects cannot be estimated at this time. This bill does not result in an unmitigated increase in revenue because some new businesses will begin operations in the State regardless of the incentives contained in this bill. To the extent this occurs, revenues will decline.

To the extent that corporations take the credit, Transportation Trust Fund (TTF) revenues will decline in addition to general fund revenues.

State Expenditures: The Department of Business and Economic Development advises that it would require \$130,600, including three positions, in fiscal 1997 to evaluate and approve economic development projects for the credits. The Department of Fiscal Services advises that in fiscal 1997 these responsibilities could be handled with existing budgeted resources. Additional staff might be needed in the out-years depending upon the level of demand for the credits; the Department of Fiscal Services advises that these responsibilities could be handled with one and one-half positions if necessary, totaling approximately \$70,000 of additional expenditures.

Local Revenues: Local revenues will decrease by one-half of the property tax credits granted in enterprise zones. The amount of this loss cannot currently be estimated. Because the income tax credits must be added back to income, local revenues will increase for those credits, if any, taken against the individual income tax.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Assessments and Taxation, Department of Fiscal Services

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