Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 262 (The Speaker, et al.)
(Administration)
Ways and Means Referred to Budget and Taxation

Jobs Creation Tax Credit Act of 1996

This enrolled Administration bill establishes a job creation tax credit for specified categories of businesses that establish or expand a "major business facility" in the State. The business must create at least 60 jobs for "qualified full-time employees" or at least 30 new jobs if the total payroll is greater than an equivalent of 60 jobs at the average State salary; the Department of Business and Economic Development (DBED) must certify that the business qualifies for the credit amount. The credit amount equals the lesser of $1,000 or 2.5% of wages per qualified employee, or the lesser of $1,500 or 5% of wages per qualified employee if the business is located in a revitalization area or if the employee meets the definition of a "disabled individual."

Any single business may not earn more than $1 million in credits for any one credit year. There are provisions to recapture the credit amount if employment falls below a specified level in the next three years. The tax credits may be applied against the financial institution franchise tax, the public service company franchise tax, the insurance premium tax, or the State individual or corporate income tax. One-half of the credit amount is allowed annually for two years. The tax credit may be carried over for ten years, and may be claimed only for facilities that commence operations before January 1, 2001.

The Department of Fiscal Services (DFS) must conduct a study on the efficacy and effectiveness of the tax credit program. The study must be presented to specified committees by September 1, 2000. The bill also provides that the Governor must work with officials in neighboring states to reach an agreement that eliminates tax subsidies as a means to entice new jobs to the State.

This bill is effective July 1, 1996.

Fiscal Summary

State Effect: Indeterminate significant decrease in State revenues due to the tax credits; other tax revenues could potentially increase by an indeterminate amount due to economic and employment development. Potential indeterminate decrease in expenditures on public assistance programs; potential indeterminate increase in administrative expenditures in the out-years.

Local Effect: Indeterminate effect on local revenues; expenditures would not be affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). Fiscal Services concurs with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

State Effect:

Job Creation Tax Credit

The total amount of credits allowed under the job creation tax credit would depend upon the number of qualified businesses that hire at least 60 qualified employees (or the payroll equivalent) in the process of establishing or expanding a facility in Maryland, and the number of employees hired. According to DBED, the average State salary is $28,288, therefore the current salary threshold under this bill would be $2,828,800.

For example, if a new company establishes a business in Maryland and hires 60 qualified employees, it could qualify for a tax credit totaling $60,000 (approximately $30,000 per year for the next two years). If the same company is located in an enterprise or empowerment zone or in another eligible neighborhood, it could qualify for a credit totaling $90,000 (approximately $45,000 per year for the next two years). In addition, companies not located in an enterprise zone could receive credits of $1,500 for each employee that qualifies as a disabled individual. According to the Census Bureau, there were an estimated 230,000 disabled adults in Maryland in 1990; about 40% of disabled adults work.

Credits taken on an individual return affect general fund revenues. Any credit applied to corporate income taxes will affect both general and special fund revenues, since approximately 23% of this tax is allocated to the Gasoline and Motor Vehicle Revenue Account (GMVRA); these special funds are then distributed 70/30 to the Transportation Trust Fund and to the local governments.

The credit could be applied against the financial institution franchise tax, the public service company franchise tax, or the insurance premium tax rather than the income tax. The credit amount allowed would be the same.

It is expected that this program will be phased in over a number of years, as a certain lag time would elapse before companies begin to respond to this program. A certain number of jobs that would qualify for the program would have been created anyway, either through the course of normal business expansion or a relocation based on other State incentives. To the extent that jobs would have been created absent the tax credit program, State revenues would decrease. However, if jobs are created through business relocations or expansions that would not have otherwise occurred, State tax revenues would increase.

Administrative Costs

There will be no additional expenditures by the Comptroller, as the current credit form for businesses could be expanded to incorporate this credit. However, DBED advises that administrative expenses for personnel, equipment, and technical services could increase by $109,600 in fiscal 1997. The Department of Fiscal Services believes that the tax credit program could be handled by the same staff currently dealing with various incentives programs. In addition, it is assumed that all reporting and study requirements could be handled with existing economic staff. Therefore, in fiscal 1997 no additional resources should be necessary. Some expenditures may be warranted in the out-years if there is sufficient program demand.

State Expenditures on Assistance Programs

If any of the employees for whom the tax credit is claimed were receiving unemployment benefits immediately prior to their being hired, expenditures from the Unemployment Trust Fund would decline. Additional savings may result from employment opportunities for individuals receiving other forms of public assistance.

Local Revenues: To the extent that this legislation spurs economic and employment development, tax revenues could increase. However, local revenues that result from the distribution of GMVRA funds would decrease.

Small Business Effect: As noted in the Administration analysis, small businesses could benefit from the Job Creation Tax Credit due to indirect effects (such as if they are a supplier to a business that qualifies for the credit). However, non-eligible small businesses that compete in any way with larger businesses that qualify for these credits would be put at a competitive disadvantage.

Information Source(s): Department of Business and Economic Development, Public Service Commission, Department of Fiscal Services

Fiscal Note History: First Reader - February 5, 1996
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