Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1062 (Delegate Busch, et al.)
Ways and Means

Maryland Major Business Facility Job Tax Credit

This bill establishes a major business facility job tax credit for specified activities and categories of businesses that establish or expand a "major business facility" in the State. The business must create a threshold amount of at least 100 jobs for "qualified full-time employees;" in an enterprise zone or economically distressed area the business must create a threshold of at least 50 jobs. The Department of Business and Economic Development (DBED) must certify that the business qualifies for the credit amount. The credit amount equals $1,000 per employee for every qualified employee that exceeds the threshold amount; credits are reduced for employees employed in the State for less than 12 full months during the credit year.

There are provisions to recapture the credit amount if employment falls below a specified level in the next five 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-third of the credit amount is allowed annually for three years. The tax credit may be carried over for ten years, and may be claimed only for facilities that commence operations before January 1, 2006.

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.

Fiscal Analysis

State Effect:

Job Major Business Facility 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 100 qualified employees (or 50 in specified areas) in the process of establishing or expanding a facility in Maryland, and the number of employees hired. Businesses would only have to create 50 jobs in enterprise zones or economically distressed areas. According to DBED, there are currently 26 designated enterprise zones in Maryland. Averaging December and June 1995 unemployment rates, 12 counties (including Baltimore City) would quality as economically distressed areas.

For example, if a new company establishes a business in Maryland and hires 200 qualified employees (100 over the threshold amount), it could qualify for a tax credit totaling $100,000 (approximately $33,333 per year for the next three years). If the same company is located in an enterprise zone or in an economically distressed area and creates 100 jobs (50 over the threshold amount), it could qualify for a credit totaling $50,000 (approximately $16,700 per year for the next three years). 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 $69,000 in fiscal 1997. The Department of Fiscal Services believes that the tax credit program will be handled by the same staff currently dealing with various incentives programs. 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.

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

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