

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 412 (Senator Boozer, et al.)
Budget and Taxation

Referred to Ways and Means

**Work, Not Welfare, and Enterprise Zone Income Tax Credits -
Tax Exempt Organizations - Unrelated Business Taxable Income**

This amended bill allows tax exempt organizations to receive Work, Not Welfare and enterprise zone tax credits, and to apply the credits to the income tax due on unrelated business taxable income. If the full amount of the credit is not used in the year in which the credit is claimed, it can be carried forward for five years.

This bill is effective July 1, 1996. The credits can be claimed in all tax years beginning after December 31, 1995 and before January 1, 2002, although the credits are only allowable for employees hired on or after June 1, 1995 and before July 1, 1998.

Fiscal Summary

State Effect: General fund revenues could decline an indeterminate amount. Expenditures would not be affected.

Local Effect: Revenues could be affected as described below. Expenditures are not affected.

Fiscal Analysis

Background: Under current law, credits can be claimed against the corporate and individual income taxes for wages paid to qualified employees in enterprise zones. These credits range up to \$1,500 for the first year an economically disadvantaged individual is hired.

Credits can also be claimed against the income taxes and franchise taxes for wages paid to individuals who had been on Aid to Families with Dependent Children (AFDC) for at least six months before being hired. For the first year, these credits are equal to 30% of the first \$6,000 of wages (\$1,800) and \$600 of eligible child care expenses.

State Revenues: General fund revenues will decline to the extent that these credits are claimed by nonprofit organizations for hiring individuals they would have hired under current law. This amount cannot be estimated at this time; it depends on the number of qualified employees hired in enterprise zones and the number of individuals hired who had been on AFDC for six months.

Any benefit to the State in terms of increased tax revenues, both direct and indirect, resulting from extending these credits to nonprofit organizations cannot be reliably estimated at this time.

Enterprise zone credits have totaled between \$20,000 and \$120,000 for individual income tax returns and \$198,000 to \$332,000 on corporate income tax returns. The extension of these credits to nonprofit organizations seems likely to cause a minimal decline in general fund revenues. No data has been collected on the Work, Not Welfare tax credits because these credits were only enacted in 1995. The revenue loss from extending these credits to nonprofit organizations cannot be reliably determined at this time.

To the extent that non-profit organizations are corporations, revenues would not be affected because these entities could claim these credits under current law.

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

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