HB 110

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 110 (Delegate Bissett)
Ways and Means

Military Reuse Zones - Advanced Technology Job Creation Tax Credit

This bill establishes a job creation tax credit for specified categories of businesses that establish or expand an "advanced technology business facility" in a military reuse zone as designated by the Department of Business and Economic Development (DBED). The credit amount equals $1,000 per qualified employee; credits are reduced for employees employed in the State for less than 12 full months during the credit year. DBED must certify that the business qualifies for the credit amount.

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. The tax credit may be carried over for ten years.

This bill is effective October 1, 1997 and applies to all taxable years after December 31, 1997.

Fiscal Summary

State Effect: Indeterminate decrease in State revenues due to the tax credits beginning in FY 1998 and increasing in the out-years; 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: Potential meaningful impact on small businesses as discussed below.

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 designated military reuse zones, the number of qualified businesses that locate a facility in a military reuse zone, and the number of employees hired. According to DBED, there are four potential sites which could qualify as military reuse zones: Bainbridge; Ft. Richie; Naval Surface Warfare (Annapolis); and White Oak.

For example, if a new company establishes a business in a military reuse zone and hires 100 qualified employees, it could qualify for a tax credit totaling $100,000. 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 equipment and technical services could increase by $57,600 in fiscal 1999. However, the Department of Fiscal Services advises that the amount of extra workload generated would depend upon the number of military reuse zones that would be designated and the number of qualifying businesses interested in developing these sites. If there is significant demand for the program, some additional expenditures may be incurred.

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: Small businesses that qualify as advanced technology business facilities and establish or expand in a military reuse zone could receive tax credits up to $1,000 per qualified employee. The number of small businesses that would qualify for the tax credit is unknown.

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

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