HB 840

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 840 (Delegate Finifter, *et al.*)
Ways and Means

Job Creation Tax Credit - Small Business

This bill provides that businesses not qualified for the Job Creation Tax Credit Program that create at least five new jobs in the State may claim a tax credit. This credit is equal to $100 per employee, or $200 if the employee is an "economically disadvantaged individual". The Department of Business and Economic Development (DBED) must certify that the business is eligible for the credit. There are provisions to recapture the credit amount if employment falls below a specified level in the next three years. The tax credit may be carried over for five years, but may not be carried back.

The tax credit may be claimed only for new or expanding facilities that commence operations before January 1, 2001. 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.

This bill is applicable to all taxable years beginning after December 31, 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. Administrative expenditures could increase depending upon the number of applications for certification received.

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

Small Business Effect: Meaningful effect on small businesses as discussed below.

Fiscal Analysis

State Effect:

Tax Credits

The total amount of credits allowed under this tax credit program depends upon the number of "non-qualified" businesses that hire at least five qualified positions. DBED estimates that this decrease in the minimum number of jobs created could increase the number of tax credits claimed for job creation by five times the number anticipated through the existing Job Creation Tax Credit Program.

The Department of Fiscal Services (DFS) advises that the increase in applications for the tax credit would depend upon the number of businesses willing to hire individuals that qualify under the bill. Such a position must be full-time, and pay 150% of the federal minimum wage ($7.73 per hour as of September 1, 1997). The total number of additional tax credits provided under this bill cannot be estimated at this time, though it is expected to be significant.

Under the current Job Creation Tax Credit Program, from July 1996 to January 1997, 27 businesses have been certified to receive Job Creation tax credits; three businesses have had their applications turned down. The total jobs affected is approximately 6,400 by fiscal 2001; however, DBED did not provide information on how many of these positions would be in an enterprise zone. Therefore, the total amount of tax credits received is not known at this time. However, if all jobs qualified for the maximum credit amounts of $1,000, or $1,500 in an enterprise zone (or for a disabled individual), total tax credits provided during the first seven months of the program would be between $6.4 million and $9.6 million. This amount will actually be spread out over the next five years. It was also originally projected that the program will phase in over time, with participation increasing after the first year.

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 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.

A certain number of jobs that would qualify under the expanded 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. Due to the low number of jobs that are required to be created under this bill, it is assumed that many of these positions would have been created during the normal course of business regardless of the credit, particularly for larger businesses.

Administrative Costs

DBED advises that administrative expenses for personnel, equipment, and other operating expenditures could increase by $163,900 in fiscal 1998. This estimate includes personnel costs for four full-time positions and an additional part-time clerical. The Department of Fiscal Services advises that any such increase in personnel would be dependent upon the actual increase in workload. While additional personnel will probably be needed, it is assumed that the tax credits received under this bill will be phased in over time. Previous estimates for personnel expenditures due to a doubling of the workload for the Job Creation Tax Credit Program were approximately $20,200 for fiscal 1998. This estimate was for one part-time contractual; full-time personnel have increased benefits costs.

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 Effect: 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 could benefit significantly under this bill. A small business that hires at least five qualified new employees could receive $100 per employee in tax credits, and $200 per economically disadvantaged employee. Under the current Job Creation Tax Credit Program, businesses must create at least 60 new jobs or 30 that exceed the payroll equivalent of 60 jobs at the average State salary. These job creation thresholds preclude almost all small businesses, except for those that are expanding greatly in a high-paying field.
Businesses that qualify for this new credit must still meet the original definition of a "qualified employee". Such a position must be full-time, and pay 150% of the federal minimum wage. The current minimum wage is $4.75; 150% of this would equate to $7.13 an hour. The minimum wage will increase to $5.15 on September 1, 1997; 150% of this wage will equate to $7.73 an hour. Given a 40-hour work week, an individual at this salary would

be paid approximately $16,000 per year exclusive of any benefits. Total salary for five such individuals would be $80,000.

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

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Analysis by:	Kim E. Wells-McDonnell	Direct Inquiries to:
Reviewed by:	John Rixey	John Rixey, Coordinating Analyst
		(410) 841-3710
		(301) 858-3710