SB 521

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 521 (Senator Boozer, *et al.*)
Budget and Taxation

Work, Not Welfare, Enterprise Zone, and New Job Creation Tax Credits - Tax Exempt Organizations

This bill provides that Job Creation tax credits may be provided for organizations engaged in specified nonprofit activities. A nonprofit organization may apply Job Creation tax credits against income due on unrelated business taxable income. A nonprofit organization that receives Work, Not Welfare, Enterprise Zone, or new Job Creation tax credits may transfer those credits to a for-profit entity that is able to use the credit in exchange for a cash payment equal to the amount of the tax credit.

Fiscal Summary

State Effect: Indeterminate annual decrease in State revenues due to the tax credits and credit transfers; 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.

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

Small Business Effect: Potential meaningful impact on small nonprofit organizations as discussed below.

Fiscal Analysis

Background: Currently, a nonprofit organization may apply Job Creation tax credits against income due on unrelated business taxable income for both Work, Not Welfare and Enterprise Zone tax credits. However, nonprofits are not currently eligible for Job Creation tax credits.
State Effect: The total number of credits allowed under the expansion of the Job Creation tax credit depends upon the number of nonprofit organizations that create 60 or more jobs (or

30 at specified wages). These credits could be applied against taxable income, or transferred to a for-profit organization. In addition, the bill provides that nonprofit organizations that create jobs that qualify under the Work, Not Welfare tax credit or the Enterprise Zone tax credit could transfer these to a for-profit organization for a cash reimbursement. The total number of additional credits allowed would depend upon the number of nonprofit organizations that could qualify for these credits but would not be able to apply them against taxable income, and the number of businesses that would be willing to accept the credit exchange.

For example, if a nonprofit expanding in Maryland hires 60 qualified employees under the Job Creation tax credit, it could qualify for a tax credit totaling $60,000 (approximately $30,000 per year for the next two years). The Job Creation tax credit would increase to $90,000 if the nonprofit was located in an enterprise or empowerment zone or in another eligible neighborhood. In addition, if the nonprofit was not located in an enterprise zone, it could still 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.

It is estimated that there are 3,500 to 4,000 nonprofit organizations in Maryland that have at least a part-time staff that would qualify under Section 501 (C) (3) of the Internal Revenue Code, with an additional 750 to 1,000 that could qualify under Section 501 (C) (4). The Maryland Association of Nonprofit Organizations reports that 501 (C) (3) organizations provide 7% of jobs statewide, and 9% of jobs in Baltimore City.

Revenues will decrease to the extent that jobs that would qualify for the program would have been created anyway. However, if jobs are created that would not otherwise have occurred, State tax revenues would increase. This would mainly impact general fund revenues. However, should credits be transferred to a for-profit corporation, this will affect both general and special fund revenues. Approximately 23% of corporate income 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.

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.

Administrative Costs

The Department of Business and Economic Development (DBED) reports that expenditures would increase by approximately $3,000 to certify nonprofit organizations for the Job Creation tax credit. The Department of Fiscal Services advises that this workload increase could be absorbed within existing budgeted resources.

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: Nonprofit organizations that qualify for tax credits or tax credit transfers under this bill could benefit. It is expected that the nonprofit organizations that qualify for the Job Creation tax credit would not be small enterprises because of the number of jobs that must be created to qualify. However, small nonprofit organizations could benefit from the transferability of Enterprise Zone or Work, Not Welfare tax credits.

As noted above, there are approximately 3,500 to 4,000 nonprofit organizations in Maryland that qualify under Section 501 (C) (3) of the Internal Revenue Code, with an additional 750 to 1,000 that could qualify under Section 501 (C) (4).

Information Source(s): Office of the Comptroller, Department of Business and Economic Development, Maryland Association of Nonprofit Organizations, Department of Fiscal Services

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Analysis by: Kim E. Wells-McDonnell
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710