Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 38 (Delegate Hixson, *et al.*)
Ways and Means Referred to Budget and Taxation

Tax Credits - Businesses That Create New Jobs

This enrolled bill allows a county or municipal corporation to grant a tax credit against the real and personal property tax of a business that locates or expands within its jurisdiction.

If such a property tax credit is granted to a business, that business may also claim a State tax credit against the individual or corporate income tax, the insurance premiums tax, financial institution franchise tax, or public service company franchise tax. If a State tax credit allowed for a business in any taxable year exceeds the total tax otherwise payable by the business in that taxable year, the business may apply the excess as a credit for succeeding taxable years until the earlier of (1) the full amount of the excess is used; or (2) the expiration of the fifth taxable year after the taxable year in which the State tax credit is claimed.

The bill is applicable to all taxable years beginning after December 31, 1996, but before January 1, 2006. The bill sunsets December 31, 2000.

Fiscal Summary

State Effect: Potential indeterminate decrease in revenues as discussed below. No effect on expenditures.

Local Effect: Potential indeterminate decrease in revenues and increase in expenditures as discussed below.

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

Fiscal Analysis

Bill Summary: Major provisions of the bill are as follows:

- º To qualify for the credit against the real property tax, a business must construct, lease, or otherwise expand its premises by at least 5,000 square feet and create at least 25 new permanent full time jobs.

- º To qualify for a credit against the personal property tax, a business must certify that the personal property is located on a new or expanded premises that qualifies for the real property tax credit.

- º Businesses locating from one political subdivision to another do not qualify.

- º The local tax credit begins at 52% of property taxes imposed in the first and second years and phases out over six years; the State credit begins at 28% of property taxes imposed in the first and second years and also phases out over six years.

State Revenues: If a county or municipal property tax credit as authorized by this bill is granted to a business entity, that business may also claim a State tax credit against the individual or corporate income tax, the insurance premiums tax, financial institution franchise tax, or public service company franchise tax. This could reduce State revenues generated from these taxes; any specific decrease depends on the number of qualifying businesses, the number of local jurisdictions granting the credits, and the amount of those credits.

Local Revenues: Local real and personal property tax revenues could decrease. The magnitude of the decrease would depend upon the number of jurisdictions opting to grant the credits and the number and size of businesses qualifying for the credit. However, revenue losses could be offset to some degree by gains in employment and increased economic activity.

Local Expenditures: Local jurisdictions granting the tax credits could incur some additional administrative costs in processing them. Any such costs cannot be reliably estimated at this time.

Small Business Effect: Small businesses that expand or relocate operations could benefit from reduced State and local property tax liabilities to the extent that counties and municipalities authorize real and personal property tax credits.

Information Source(s): Department of Assessments and Taxation, Kent County, Department of Fiscal Services, Baltimore City, City of Bowie, Prince George's County, Town of Elkton, Department of Human Resources

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ncs	Revised - House Third Reader - March 20, 1997
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