Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 13 (Delegate Leopold)
Ways and Means

Job Creation Tax Credit - County-Designated Priority Funding Areas

This bill, for purposes of the job creation tax credit, adds to the definition of "State priority funding area" no more than one area in each county designated by the local government as a priority funding area for "Smart Growth".

This bill is effective July 1, 1998, and applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: Indeterminate.

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

Small Business Effect: Potential meaningful.

Fiscal Analysis

Background: Under current law, State priority funding areas include incorporated municipalities, certain designated neighborhoods, enterprise zones, those areas of the State located between Interstate Highway 495 and the District of Columbia, and those areas of the State located between Interstate Highway 695 and Baltimore City. This bill adds no more than one area in each county designated by local governments as a priority funding area for Smart Growth purposes to this list. Businesses in certain industries which are established or expanded in State priority funding areas qualify for the job creation tax credits if at least 25 qualified positions are created.
The job creation tax credit is the lesser of $1,000 for each qualified employee employed during the credit year or 2.5% of wages paid to qualified employees, but may not exceed $1

million for an entity in any credit year. Half of this credit may be claimed in the credit year, and the other half may be claimed in the following year. The credits may be claimed against the corporate or individual income taxes, the financial institution or public service company franchise taxes, or the insurance premium tax.

Under current law, 43 facilities were certified for the credit by June 30, 1997, representing 10,303 new jobs over the next five years. Assuming all the planned positions are created, credits from fiscal 1997 planned activity would total $9.2 million, most of which would be claimed in fiscal 1998 through 2000.

State Revenues: Revenues will decline for those credits claimed by businesses which would have been established or expanded in priority funding areas with or without this bill, and for those which would shift such activities to priority funding areas from other parts of the State because of this bill. The revenue loss is indeterminate; it depends on the number of businesses which would qualify for the credit; the number of qualified positions created; and the aggregate salaries or wages paid to qualified employees.

Of the credits claimed against the corporate income tax, 25% of the revenue loss would be from the Transportation Trust Fund (TTF), since a portion of corporate income tax revenue is distributed to the TTF. The remainder of those credits, and the credits claimed against all other taxes, would result in general fund revenue losses.

To the extent that businesses are established or expanded as a result of this bill, general fund revenues could increase through increased individual income tax and sales tax collections. This revenue increase, if any, cannot be reliably estimated.

For illustrative purposes only, if this bill resulted in a 5% increase in qualified positions, the credits would result in a revenue loss of under $100,000 in the first year. In the second year, when the other half of first year credits could be claimed along with new credits, the revenue loss would be under $200,000.

State Expenditures: If any employees in priority funding areas for whom the tax credit is claimed were receiving unemployment benefits immediately prior to 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 expenditures would not be affected.

Local Revenues: Local revenues would decline for those credits claimed against the corporate income tax, since a portion of the TTF is distributed to local governments. To the extent that this legislation creates economic and employment development, local tax revenues could increase.

Small Business Effect: Small businesses that are established or expanded in priority funding areas and that create at least 25 qualified positions could benefit from these credits. Small businesses, either new or established, with fewer than 25 employees could be put at a competitive disadvantage to large and small businesses receiving the credits. Existing or new small businesses could benefit from increased activity from larger businesses as a result of newly created jobs.

Information Source(s): Department of Business and Economic Development (Office of Business and Economic Research), Office of the Comptroller (Bureau of Revenue Estimates), Department of Assessments and Taxation, Prince George's, Montgomery, and Somerset counties, Department of Legislative Services

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