

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 619 (Senator Van Hollen. *et al.*)

Budget and Taxation

Tax Credits - Businesses that Create New Jobs

This bill extends the sunset for the authorization for local governments to grant property tax credits for businesses that create new jobs from December 31, 2000 to December 31, 2002. It also requires that, to qualify for this tax credit, the new or expanded premises of a business must be located in a priority funding area.

This bill is effective October 1, 1998, and applies to all taxable years beginning after December 31, 1997 but before January 1, 2008.

Fiscal Summary

State Effect: Indeterminate effect on general and special fund revenues. Expenditures would not be affected.

Local Effect: Indeterminate effect on local revenues. Expenditures would continue.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Background: Chapter 623 of 1997 established tax credits for businesses that create new jobs. It authorized local governments to grant credits against real and personal property taxes for businesses locating or expanding in their jurisdictions. If the property tax is granted, a State tax credit may also be claimed against the individual or corporate income taxes, the insurance premiums tax, the financial institution franchise tax, or the public service company franchise tax. The State tax credit may be carried forward for up to five years.

To qualify for the real property tax credit, a business must expand its premises by at least

5,000 square feet, and create at least 25 new permanent full-time jobs. Any personal property located on real property eligible for the tax credit is also eligible for the tax credit. The credit begins at 52% of property taxes imposed in the first and second year, and phases out over six years. The State credit begins at 28% of the property taxes imposed in the first and second years, and also phases out over six years.

State Revenues: The requirement that a business must be located in a priority funding area would reduce the cost of the existing program by an indeterminate amount. There are currently no geographic limitations for businesses claiming the credit. Extending the credit for two years would increase the cost of the program by an indeterminate amount.

The existing credit has only been effective since October 1, 1997, so no data exist regarding either the number of businesses claiming the credits or the amounts of the credits. Credits claimed against the corporate income tax would result in a revenue loss to the Transportation Trust Fund; all other credits would result in a loss to the general fund.

Local Revenues: The loss for the credit would be less than under current law due to the requirement that businesses must expand in a priority funding area to be eligible for the credit, and revenues could decline because of the two-year extension of the program.

Local Expenditures: Any administrative costs for processing these credits would continue for two additional years.

Small Business Effect: To the extent that local governments authorize these credits, small businesses would be encouraged to locate new or expanded premises in priority funding areas. Property taxes for such small businesses would be reduced by up to 52% (39% over a six-year period), and income or other State taxes would be reduced by up to 28% (21% over a six-year period).

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates), Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - March 9, 1998

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