Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

Senate Bill 421 (Senator Hafer, *et al.*)
Budget and Taxation

One Maryland Economic Development Program for Distressed Counties - Tax Credits

This bill establishes a tax credit program for specified categories of businesses that establish or expand business facilities in a "qualified distressed county" in the State and the activity creates 25 or more new full-time positions. The bill allows a tax credit for "start-up costs." In addition, a qualified business with "total project costs" of at least $500,000 may claim a tax credit for those expenses.

The bill takes effect July 1, 1999 and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: Indeterminate effect on State revenues. Potential indeterminate decrease in expenditures on public assistance programs.

Local Effect: Revenues for qualified distressed jurisdictions could increase by an indeterminate amount. No effect on expenditures.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: The bill allows a tax credit for "start-up costs" that is the lesser of: (1) 100% of start-up costs, less the amount of the credit allowed for prior taxable years; or (2) $10,000 for each qualified employee. This credit may be carried over for ten years.

In addition, the bill allows a qualified business with at least $500,000 in total project costs to claim a tax credit that is the lesser of: (1) 100% of the total project costs reduced by any credit claimed in prior taxable years; or (2) the State tax for the taxable year on income generated by or arising out of any eligible economic development project. If total project costs exceed the State tax liability, the business may carry forward the credit for up to 14 years.

The tax credit may be claimed against the insurance premium tax, the financial institution franchise tax, or the individual or corporate income tax. The bill applies to business facilities located in priority funding areas, as well as facilities located outside of priority funding areas if the project is approved by the Board of Public Works because an extraordinary circumstance exists or the project is a transportation project that meets other specified requirements.

A qualified distressed county is a county, including Baltimore City, with (1) an average unemployment rate that exceeds 150% of the statewide average unemployment rate over the most recent 18-month period for which data are available; or (2) an average per capita personal income for the most recent 24-month period that is at or less than 67% of the statewide average per capita personal income.

A qualified position is a full-time position that: (1) was created as a result of a qualified economic development project; (2) pays at least 150% of the federal minimum wage; and (3) has been filled.

The bill requires the Secretary of the Department of Business and Economic Development to adopt regulations to establish the criteria and procedure for the tax credit program. The bill also specifies the information that business entities must submit to the Secretary for certification as a qualified entity. A business entity must be certified before the entity is eligible to claim the credit. The certificate must be submitted to the Comptroller with the tax return on which the credit is claimed.

Background: Exhibit 1 shows the 18-month average unemployment rate and the 24-month average per capita personal income for each county in Maryland. Under the bill, seven counties would currently qualify as distressed. These counties are highlighted in the table. The 18-month average is through November 1998; the 24-month average is for 1995 and 1996 -- the most recent data available from the Maryland Office of Planning.

Table 1: Unemployment Rate and Per Capita Personal Income by County

County	18-month Ave. Unemployment Rate	150% of MD Average	24-month Ave. Per Capita Income	67% of MD Average
Allegany	8.61%	6.90%	$18,298	$18,171
Anne Arundel	3.65%	6.90%	$27,071	$18,171
Baltimore City	8.55%	6.90%	$22,455	$18,171
Baltimore County	4.79%	6.90%	$28,456	$18,171
Calvert	3.74%	6.90%	$23,815	$18,171
Caroline	4.24%	6.90%	$16,493	$18,171
Carroll	3.75%	6.90%	$24,768	$18,171
Cecil	6.88%	6.90%	$20,938	$18,171
Charles	3.48%	6.90%	$23,168	$18,171
Dorchester	9.10%	6.90%	$18,988	$18,171
Frederick	3.10%	6.90%	$24,051	$18,171
Garrett	11.12%	6.90%	$16,327	$18,171
Harford	4.83%	6.90%	$23,207	$18,171
Howard	2.70%	6.90%	$31,908	$18,171
Kent	6.00%	6.90%	$23,646	$18,171
Montgomery	2.38%	6.90%	$39,779	$18,171
Prince George's	4.51%	6.90%	$24,207	$18,171
Queen Anne's	3.82%	6.90%	$24,859	$18,171
St. Mary's	3.94%	6.90%	$20,347	$18,171
Somerset	8.81%	6.90%	$14,665	$18,171
Talbot	3.74%	6.90%	$32,124	$18,171
Washington	4.21%	6.90%	$19,518	$18,171
Wicomico	5.40%	6.90%	$20,778	$18,171
Worcester	9.61%	6.90%	$23,311	$18,171
MARYLAND	4.60%		$27,122	

Source: Department of Labor, Licensing, and Regulation; Maryland Office of Planning

State Effect: Revenues will decline for those credits claimed by: (1) businesses that would have been created anyway in the absence of the bill, either through the normal course of business expansion or a relocation based on other State incentives; and (2) development originally intended for a non-qualified county that was diverted to a neighboring qualified county as a result of this bill. The revenue loss is indeterminate; it depends on the number of businesses which would qualify for the credit, and the amount of start-up and project costs incurred.

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 new businesses and employment 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.

The net effect on State revenues is indeterminate. It should be noted, however, that taxes are only one of many factors that influences a corporation's location decision.

For illustrative purposes, the following examples provide an indication of the potential benefits to qualified businesses that participate in the credit program. The first example illustrates the benefits from receiving only the start-up credit while the second example illustrates the benefits to a large corporation with substantial project costs.

Example 1: If a qualified small business with 25 new employees establishes a new facility in a qualified county and incurs start-up costs of $200,000 and total project costs of $350,000, the business would qualify for the start-up credit only. The amount of the credit would be $200,000, which could be spread over 10 years: an average of $20,000 a year.

Example 2: For a qualified business with start-up costs of $400,000 and total project costs of $750,000, the business would qualify for both the start-up cost credit and the total project cost credit. The total credit would be $1.15 million, spread over time. The period over which the business may claim the credit would depend on the business's State tax liability. If spread evenly over the allowed carry-forward period, the business would receive about $93,500 in credits over the first 10 years and $53,300 in credits over the next 4 years.

To the extent that this legislation spurs new employment and economic development in the State, expenditures on certain assistance programs could decrease.

The Office of the Comptroller may incur additional administrative expenses to modify tax forms. These costs could be absorbed within their existing budget.

Local Effect: If this legislation spurs new economic development and employment in the qualified counties, local income tax revenues for those counties would increase. In addition, property tax revenues for the affected jurisdictions could increase as a result of additional economic development.

If the business expansion or growth was originally intended for a non-qualified county and was diverted to a neighboring qualified county as a result of this bill, potential revenues for the non-qualified county would not be realized.

Small Business Effect: Small businesses that locate in the qualified counties and qualify for the credits would be positively impacted. Existing small businesses would also benefit indirectly if the bill increases development and economic activity in the qualified counties.

Additional Information: Exhibit 2 presents the results of the Business Credits Study conducted by the Office of the Comptroller. The study examined the experience of the State's various business credit programs. As indicated in the table, only about $50,000 in credits were claimed under the Job Creation Tax Credit Program in tax year 1996.

Exhibit 2: Business Credits Study[1]

Credit Type	Total Number of Returns / Total Number of Employees Claimed	Total Amount of Credits Claimed
Enterprise Zone: Economically Disadvantaged Employees	30 / 199[2]	$124,062
Enterprise Zone: Other Qualified Employees	22 / 218[3]	$80,659
Employment Opportunity Employees: Credit for Wages	27 / 319[4]	$171,471
Job Creation: Non-Revitalization Area, Non-Disabled	4 / 303[3]	$50,158
Others - Credits Claimed But Details Not Available	12 / -	$99,214

1. Information provided where available.
2. Represents total claimed over a 3-year period.
3. Represents total claimed over a 1-year period.
4. Represents total claimed over a 2-year period.

Source: Comptroller of the Treasury, Bureau of Revenue Estimates

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Business and Economic Development, Department of Legislative Services

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Analysis by: Lina Walker

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510