Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 364 (Delegates Hixson and Hurson)
Ways and Means

Tax Credits - New or Expanded Business Premises

This bill increases the Businesses that Create New Jobs Tax Credit for corporations that substantially expand their businesses. The total amount of the credit claimed by the qualifying business is increased from 80% to 90% of the property tax assessed on the expanded premises and the credit is available for 12 years. In addition, the bill eliminates the prohibition against granting the above credit to a business entity that has been certified for the Job Creation Tax Credit.

The bill repeals the December 31, 2002 termination date applicable to the Businesses that Create New Jobs Tax Credit.

Fiscal Summary

State Effect: Indeterminate effect on State revenues. General fund expenditures could decrease by an indeterminate amount.

Local Effect: Indeterminate effect on county and municipal revenues. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

Background: Under current law if a business entity expands or constructs at least 5,000 square feet on its premises and employs at least 25 individuals in new permanent full-time positions in the new or expanded premises, and meets other specified requirements, the business entity is granted a local property tax credit equal to 52% of the amount of property tax imposed on the assessed value of the new or expanded premises in the first and second taxable years. In addition, the business also qualifies for a State tax credit equal to 28% of the amount of property tax of the new or expanded premises for the first and second taxable years. Combined, the expanded business qualifies for a credit of 80% of property taxes that may be claimed against local and State taxes. The credit phases-out over seven years. Also, if the business entity claims the above credit, it may not claim the Job Creation Tax Credit.

Under the Job Creation Tax Credit program, a tax credit in the amount of up to $1,000 or 2.5% of wages per employee may be claimed for every new employee hired by a business if the employer creates at least 60 jobs. A business that is in a revitalization area or hires a disabled person is eligible for a tax credit of up to $1,500 or 5% of wages. In addition, Chapter 624 of 1997 provides that a county or municipality may provide tax credits against real and personal property taxes of qualified businesses. Businesses may qualify if they construct or expand by at least 5,000 square feet and employ an additional 25 individuals. Businesses that are granted a property tax credit under this program may also claim a State tax credit.

State Effect: The Businesses that Create New Jobs Tax Credit is increased for those business entities that: (1) construct or expand by at least 200,000 square feet as an addition to the existing business entity or combination of business entities; (2) employ at least 500 individuals in permanent full-time positions located in the new or expanded premises during each year the credit is claimed; and (3) employ at least 25 new individuals in permanent full-time positions located in the new or expanded premises.

If the business entity (or group of business entities) meets the above requirements, the entity will be granted a local property tax credit equal to 58.5% of the amount of property tax imposed on the assessed value of the new or expanded premises for 12 years. In addition, the business may claim against its State taxes a credit equal to 31.5% of its property tax amount for 12 years. Combined, the business would qualify for a 90% tax credit for 12 years.

For qualified businesses that would have expanded their facilities in the absence of the bill, the bill provides an additional credit of 3.5% of the amount of property tax that may be claimed against State taxes in the first and second year. The extent of the resulting decrease in State revenues will depend on the number of businesses that are granted this expanded tax credit by local governments, the value of the eligible property for the credit, and the applicable property tax rates. General fund revenues will further decline as these business entities qualify for the Job Creation Tax Credit.

If the State credit is claimed against the corporate income tax, special fund revenues to the Transportation Trust Fund (TTF) would decrease since about 25% of corporate tax revenues are distributed to the TTF.

Since the bill allows the qualifying business to claim the full credit every year for 12 years, whereas current law phases out the credit over 7 years, future year revenue losses will increase significantly over time; the additional credit qualifying businesses may claim increases to 31.5% of the property tax amount beginning in the seventh year.

To the extent that if new development and employment is generated due to the expanded credit, general fund revenues could increase through increased individual income tax and sales tax collections. This revenue increase, if any, cannot be reliably estimated at this time. In addition, expenditures on certain assistance programs could decrease.

The net effect of this bill on State revenues is indeterminate.

Local Effect: For qualified businesses that would have expanded their facilities in the absence of this bill, the bill provides an additional credit of 6.5% of the amount of property tax that may be claimed against local property taxes. Consequently, local revenues will decrease for every credit that is granted for these business expansions. The extent of the decrease will depend on the number of businesses that are granted this tax credit by local governments, the value of the eligible property for the credit, and the applicable property tax rates. The loss over time, however, could be potentially significant. However, revenue losses could be offset to some degree by gains in employment and increased economic activity if new business expansions occur as a result of this bill.

Prince George's County advises that in the past five years, one business each year would have qualified for the enhanced tax credit provided in this bill. Under this bill, the total loss from the expanded tax credit for all five firms would be approximately $734,630 in fiscal 1999. Assuming this trend continues, the value of the new tax credit would be an additional $146,925 per year. On the other hand, Worcester County advises the construction requirement under this bill is not in compliance with the county's comprehensive plan, which currently does not encourage economic development projects on this scale, and thus there would be no impact on its finances.

Information Source(s): Department of Assessments and Taxation, Washington County, Montgomery County, Prince George's County, and Worcester County

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