

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1061 (Delegate Rudolph. *et al.*)

Ways and Means

Income Tax Credit - Dredge Material Research and Use

This bill provides that an individual or corporation may claim a credit against the State income tax for 50% of the amount of qualifying expenses for: (1) research and development related to beneficial uses of dredge material from the maintenance of shipping channels in the Chesapeake Bay; or (2) implementation and use of these techniques, including construction and related costs involving the beneficial use of dredge spoil. The Maryland Department of the Environment is required to adopt eligibility criteria for the credit. The credit may not exceed the State income tax imposed for the taxable year and any unused amount of the credit for any taxable year may not be carried over to another taxable year.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999, but before January 1, 2010. The bill sunsets June 31, 2010.

Fiscal Summary

State Effect: The extent of any general fund and Transportation Trust Fund (TTF) revenue loss depends on the number of individuals and corporations claiming the credit and the amount of the credits claimed. One-time expenditure increase of \$36,900 in FY 2001.

Local Effect: To the extent that credits are taken by corporations, local revenues would decline as a portion of the corporate income tax is distributed to the TTF from which a distribution to local governments is made.

Small Business Effect: Potential meaningful. To the extent that small businesses become involved in the research, development, and implementation of beneficial uses of dredge material from the maintenance of shipping channels in the Chesapeake Bay, and therefore

become eligible for the credit proposed by the bill, these businesses will realize a reduced income tax liability.

Analysis

Current Law: No State income tax credit of this type exists.

State Fiscal Effect: The actual cost of this bill cannot be reliably estimated because it is not known how many individuals or corporations would claim the credit and the amount of the credit claimed.

Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

For illustrative purposes only, for every \$1 million spent on research and development activities that would qualify for the credit claimed on personal income tax returns, general fund revenues would decrease by \$500,000. If claimed on corporate income tax returns, general fund revenues would decrease by \$375,000 and TTF revenues would decrease by \$87,500 (local government revenues would decrease by \$37,500).

The Maryland Department of the Environment advises that general fund expenditures could increase by an estimated \$36,900 in fiscal 2001 only. This estimate reflects the cost of hiring one contractual environmental specialist to assist the department in drafting regulations detailing the eligibility criteria for the income tax credit proposed by the bill. It includes salary, fringe benefits, and one-time start-up costs.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland Department of the Environment, Department of Transportation (Maryland Port Administration), Department of Legislative Services

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