Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1014 (Delegate Shriver)
Ways and Means

Qualified Maryland Housing Tax Credit

This bill allows an individual or corporation a credit against the State income tax for a qualified Maryland housing project, and provides for the allocation of the aggregate available credit among qualified Maryland housing projects by the Secretary of the Department of Housing and Community Development (DHCD). The bill limits the aggregate credit that may be authorized for any calendar year to that of the federal low-income housing credit. Any unallocated or unused portion of the aggregate credit may be carried forward or backward to other taxable years. DHCD is authorized to adopt regulations to carry out the provisions of the bill.

The bill takes effect October 1, 2000, and applies to all taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: Total annual revenue loss of at least $6.6 million beginning in FY 2002. Future year losses are based upon Maryland's population. The distribution of the loss between the general fund and the Transportation Trust Fund (TTF) depends upon the number of claims against the corporate income tax and the number of claims against the personal income tax. A portion of the loss to the TTF will be passed through to local jurisdictions. Expenditures would increase by $40,800. Future years reflect ongoing operating expenses and inflation.

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 to which a distribution to local governments is made. Based on the assumptions above, local government revenues would decrease by approximately $246,700 in FY 2002.

Small Business Effect: Potential meaningful. Small businesses claiming the credit would reduce their State income tax liability. In addition, if the credit increases the construction of low-income housing, then small construction or related businesses could realize increased business.

Analysis

Current Law: No State income tax credit of this type exists. However, there is a federal low-income housing tax credit available for low-income housing units in qualified low-income buildings in qualified low-income housing projects. A project must continue to meet the requirements for 15 years or the credit is subject to recapture.

State Fiscal Effect: The aggregate amount of credit under the bill for a given tax year is equal to the state housing credit ceiling applicable to the State for the calendar year under the Internal Revenue Code (IRC). Under the IRC, the state housing credit ceiling is set at $1.25 multiplied by the State population. This amount can be increased by any unused credit from the year before.

The following illustrates Maryland population estimates provided by Dismal Sciences/RFA Inc., a regional economic consultant, and the resulting maximum aggregate credit for tax years 2001 through 2004.

Tax Year	Maryland Population	Maximum Aggregate Credit
2001	5,263,383	$6,579,229
2002	5,308,323	$6,635,404
2003	5,352,934	$6,691,168
2004	5,395,142	$6,743,928

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.

Assuming that one-half the credits are claimed against the personal income tax and one-half the credits are claimed against the corporate income tax, general fund revenues would decrease by approximately $5.8 million and TTF revenues would decline by approximately $575,700 in fiscal 2002. This estimate also assumes that the maximum aggregate credit is claimed each year and that the full amount of the revenue decrease for each tax year will occur in the subsequent fiscal year.

General fund expenditures for DHCD could increase by an estimated $40,800 in fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of hiring one construction manager to administer the tax credit program including application review, construction review and management, and compliance monitoring. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; and (3) $19,100 in contractual services for a part-time contractual employee to assist in administering the program beginning in fiscal 2002.

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. Based on the estimate above, local government revenue would decrease by approximately $246,700 beginning in fiscal 2001.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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cm/jr

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