Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 86 (Senator Baker)
Budget and Taxation

Tax Credits - New or Expanded Business Premises

This bill alters the Businesses that Create New Jobs Tax Credit for corporations that expand their businesses in counties with populations of less than 30,000. Businesses in these counties that expand by at least 5,000 square feet are eligible for the Businesses that Create New Jobs Tax Credit if they hire at least 10, instead of 25, new full-time positions during a 24-month period. The business must obtain and occupy the new or expanded premises during the same time period.

The bill is effective July 1, 2000.

Fiscal Summary

State Effect: Potential minimal revenue decrease from a business tax credit.

Local Effect: Minimal effect on revenues in counties with populations of less than 30,000.

Small Business Effect: Potential meaningful.

Analysis

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. The qualified business may claim the State tax credit against the individual or corporate income tax, insurance premiums tax, financial institution franchise tax, or public service company franchise tax. 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.

Background: The following counties are estimated to have populations of less than 30,000 as of July 1, 2000:

Dorchester	29,700
Garrett	29,800
Kent	19,400
Somerset	25,100

The existing credit was enacted under Chapters 623 and 624 of 1997 and modified under Chapter 683 of 1998 and modified again by Chapters 510 and 492 of 1999. The original property tax credit, created in 1997, authorized a county or municipality to grant property tax credits against real and personal property taxes of a business that locates or expands within its jurisdiction. In order to qualify for the tax credit, the business must locate in new or expanded office space of at least 5,000 square feet that has not been previously occupied and must create at least 25 new full-time jobs. The State participates by granting a credit against State taxes equal to 35% of the property tax credit granted by the county or municipality. Because this is enabling legislation for local governments, a State tax credit is only granted if a local jurisdiction first grants a credit. Testimony on the bill noted that Montgomery County was at a disadvantage in competing with Northern Virginia for business locations because Northern Virginia has a glut of vacant, new office buildings. The flexibility provided in the bill could help a county like Montgomery to be more competitive.

The credit was modified by SB 779/HB 1148 of 1999. These bills made technical changes to the existing "Businesses that Create New Jobs" tax credit and established a new enhanced credit based on the structure of the existing credit. Both credits are local option credits, and include two criteria for businesses to qualify: the creation of new jobs and the construction or expansion of business premises. Under the original credit, in order for a business to qualify, it must create at least 25 new jobs within a two-year period and construct or expand by 5,000 square feet. The only significant change to the original credit under the bill was the removal of the December 31, 2002 termination date.

The new enhanced credit has two parts: one aimed at retaining jobs and Maryland-based companies and the other aimed at attracting new jobs and companies to Maryland. To qualify under the first part, a business must (1) continue to retain at least 2,500 full-time jobs located in existing space and, over a six-year period, create at least 500 new full-time jobs located in new or expanded space; and (2) construct at least 250,000 square feet of new or expanded space. To qualify under the second part, a business must (1) create at least 1,250 new jobs; and (2) construct at least 250,000 square feet of new or expanded space. The cost of the enhanced credit is based on a 65% local/35% State split which is similar to the original credit. The existing credit equals 80% of property taxes that would have otherwise been due on the new space, phasing out over six years. The new enhanced credit equals 90% of property taxes that would have otherwise been due, phasing out over 12 years. Both the original and the new enhanced credits have five-year carryforwards.

A similar bill was introduced during the 1999 session as SB 651 and testimony by Kent County for this bill indicated that because Kent County is the smallest county in the State with only 19,000 residents, the creation of 25 new jobs is too difficult a task. The county only has seven businesses that employ more than 100 people.

State Effect: The Businesses that Create New Jobs Tax Credit is expanded to those businesses in counties with populations of less than 30,000 that expand their premises at least 5,000 square feet and employ at least ten new full-time positions within a 24-month period in the new or expanded premises.

For those qualified business expansions that would have occurred in the absence of this bill, the credit results in a loss of State revenues. The extent of the decrease will depend on the number of businesses that are granted this tax credit, the value of the eligible property for the credit, and the applicable property tax rates.

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 income tax revenues are distributed to the TTF.

To the extent that new development and employment is generated due to the less stringent requirement for the credit, general fund revenues could increase by an indeterminate amount through increased individual income tax and sales tax collections. In addition, expenditures on certain assistance programs could decrease.

The net effect of this bill on State revenues is assumed to be minimal. According to the Comptroller's Office, to date, no businesses have taken advantage of the existing Businesses that Create New Jobs Tax Credit.

Local Effect: For those qualified business expansions that would have occurred in the absence of this bill, local revenues will decrease. The extent of the decrease will depend on the number of businesses that are granted this tax credit, the value of the eligible property for the credit, and the applicable property tax rates.

If this legislation spurs new economic development and employment in the State, local revenues would increase. In addition, property tax revenues for the affected jurisdictions could increase as a result of additional economic development.

Local revenues would decline for those credits claimed against the corporate income tax, since a portion of the TTF is distributed to local governments.

Small Business Effect: To the extent that small businesses secure tax credits under the bill, their tax liability would be reduced. Any benefit to small businesses would depend on the credits granted and the reduction in tax liability.

Existing businesses would also benefit indirectly if the bill increases development and economic activity in the county.

Additional Information

Prior Introductions: Similar legislation was introduced during the 1999 session as SB 651 and HB 443. Neither bill passed.

Cross File: HB 144 (Delegate Walkup, *et al.*) - Ways and Means.

Information Source(s): Department of Assessments and Taxation, Kent County, Department of Legislative Services

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