

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 232 (Senators Hoffman and Hogan)

Budget and Taxation

Ways and Means

Maryland Research and Development Tax Credit - Addition Modification for Corporations

This bill provides an addition modification under the Maryland corporate income tax if a Maryland Research and Development Tax Credit is claimed.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: Total annual revenue increase of up to \$420,000 beginning in FY 2002, assuming that all Research and Development Tax Credits are taken by corporations. General fund revenues would increase by \$315,000 and Transportation Trust Fund revenues would increase by \$105,000 annually.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$315,000	\$315,000	\$315,000	\$315,000	\$315,000
SF Revenue	105,000	105,000	105,000	105,000	105,000
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$420,000	\$420,000	\$420,000	\$420,000	\$420,000

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Total local government increase of \$31,500 based on the above estimate.

Small Business Effect: Minimal.

Analysis

Current Law: See below.

Background: Chapters 515 and 516 of 2000 established a research and development (R&D) income tax credit for Maryland that is modeled somewhat after the federal research and development tax credit program. The new tax credit has two parts: (1) a nonincremental credit based on a taxpayer's R&D expenses up to the "base" amount of Maryland R&D expenses; and (2) a credit based on "incremental" spending, or spending above the base amount. The nonincremental part is 3% of qualifying R&D expenditures while the incremental part is 10% of qualifying expenditures. The maximum allowed for each portion of the credit for all taxpayers is \$3 million annually, for a total of \$6 million. The bills establish a process for applying for the credit and a methodology for proportionally reducing the credit if the application amounts exceeded the annual cap. A 15-year carryforward of any unused credit amount is allowed. The credits are generally applicable to tax years 2000 through 2004.

Beginning in fiscal 2002, the Maryland R&D tax credit is expected to reduce State revenues by no more than \$6 million per year due to the statutory cap during the five-year period the credit is in effect. The breakdown of the loss for general and special fund revenues will depend on the number of corporate income tax credits taken, which affects funding for the Transportation Trust Fund. Local revenues would also decrease, again depending on the number of corporate tax credits and the loss to the Transportation Trust Fund.

One provision of these Acts required an addition modification for taxpayers claiming the credit. However, because of its placement in the Annotated Code, the provision requiring the addition modification is technically only applicable to individuals and not to corporations. This bill seeks to address this issue by making corporations claiming the credit subject to the addition modification.

State Fiscal Effect: The bill requires that a corporation taking the Maryland Research and Development Tax Credit make an addition modification in the amount of the credit taken. This offsets the double benefit received by both deducting and taking a tax credit for the same R&D expenses.

Assuming that corporations take all allowable R&D credits each year (\$6 million), total State revenues would increase by \$420,000 (\$6 million x the corporate income tax rate of 7%). Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, the addition modification will increase general fund revenues by 75% of the amount of the addition modification and Transportation

Trust Fund (TTF) revenues by 25% of the addition modification. As a result, \$315,000 will be distributed to the general fund and \$105,000 will be distributed to the Transportation Trust Fund (TTF).

In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments.

Local Fiscal Effect: Local government revenues would increase as a result of corporate taxpayers making the addition modification 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, total local government revenues would increase by approximately \$31,500.

Additional Information

Prior Introductions: None.

Cross File: HB 269 (Delegate Hixson) – Ways and Means.

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

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