

Department of Legislative Services
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FISCAL NOTE

House Bill 1424 Delegates Taylor and Rawlings)

Ways and Means and Economic Matters

Budget and Taxation

One Maryland Economic Development Tax Credits - Insurers and Tax-Exempt Organizations

This bill clarifies that tax-exempt organizations under Section 501(c)(3) or (4) of the Internal Revenue Code are included in the definition of “qualified business entity” for the purposes of the One Maryland Economic Development tax credits that are allowed for specified costs of economic development projects and specified start-up costs. The bill also provides that specified individuals and corporations with no tax liability may file an income tax return in order to claim a refund of the One Maryland tax credit. Finally, the bill provides that a person subject to the insurance premiums tax may claim the One Maryland Economic Development tax credit against the premium tax for specified costs of specified economic development projects.

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

Fiscal Summary

State Effect: General fund revenue decrease beginning in FY 2007. The extent of any decrease depends on the number of insurance companies and tax-exempt organizations that take advantage of the One Maryland credit. No effect on expenditures.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill also provides that tax exempt organizations under sections 501(c)(3) or (4) of the Internal Revenue Code may file a corporate income tax return in order to claim a refund of the One Maryland credit. In addition, the bill allows specified individuals who are not required to file an income tax return to file an income tax return in order to claim a refund of the One Maryland credit.

An insurer may not claim the One Maryland credit for project costs in either the taxable year in which the economic development project is placed in service or in the next four taxable years. The bill also provides that an insurer may apply any excess of eligible project costs, less the cumulative amount used as a tax credit for the taxable year and all prior taxable years as a tax credit against the insurance premium tax imposed for the taxable year. The insurer may claim a refund in the amount, if any, by which the unused excess exceeds the premium tax for the taxable year.

Current Law: See below.

Background: Chapter 303 of 1999 established a tax credit for eligible project and start-up costs for specified categories of businesses that establish or expand business facilities in a “qualified distressed county” and the activity creates 25 or more new full-time positions. The credit may be taken for qualified project costs only if those costs exceed \$500,000. The amount of the credit that may be claimed by a qualified business is limited to \$5 million for project costs and \$500,000 for start-up costs. A qualified business entity is allowed to carry forward both credits for 14 years. After the fourth year, the credit is refundable, although the refund that may be taken in any year is limited by the amount of taxes the business is required to withhold for the taxable year for wages of qualified employees.

The credits may be claimed against the insurance premium tax (start-up credit only), or the individual or corporate income tax (start-up and project credit). Chapter 303 applies to a business facility located in a priority funding area, or a facility located outside a priority funding area if the project is approved by the Board of Public Works because it meets specified requirements.

A qualified distressed county is a county, including Baltimore City, with: (1) an average unemployment rate that exceeds 150% of the statewide average unemployment rate over the most recent 18-month period for which data are available; or (2) an average per capita personal income for the most recent 24-month period that is at or less than 67% of the statewide average per capita personal income.

A qualified position is a full-time position that: (1) was created as a result of a qualified economic development project; (2) pays at least 150% of the federal minimum wage; and (3) has been filled.

State Fiscal Effect: The cost of the bill cannot be reliably estimated. General fund revenues could decrease beginning in fiscal 2007 to the extent that insurance companies and tax-exempt organizations take advantage of the One Maryland credit.

As a result of the requirements of the bill, any insurer that places an economic development project into service in fiscal 2002 would not be able to claim any credits against the insurance premium tax until fiscal 2007. However, it is not known how many insurers would initiate such projects.

Tax-exempt organizations that file a corporate income tax return as a result of having unrelated business income are eligible for the One Maryland credit under current law. The bill extends the credit to all tax-exempt organizations under sections 501(c)(3) or (4) of the Internal Revenue Code whether or not they have unrelated business income. Under the bill, these tax-exempt organizations would be able to file an income tax return in order to claim a refund of the One Maryland Credit. However, the bill provides that refunds to these entities would operate to reduce individual income tax revenues rather than corporate income tax revenues. These entities would be eligible to claim a refund in the fourth year after the project is completed. As a result, general fund revenues could decline beginning in fiscal 2007. The extent of the revenue decrease depends on the number of tax-exempt organizations initiating economic development projects in Maryland.

The Department of Business and Economic Development indicates that a large nonprofit organization is considering moving its headquarters to Maryland. It is estimated that this facility could incur eligible start-up costs of approximately \$500,000 and project costs of approximately \$3 million. It is also estimated that this entity could hire up to 120 people. General fund revenues would decline as a result of the entity claiming a refund of the One Maryland credit. The amount of the refund in each taxable year for each credit (start-up costs and project costs) is limited to the amount of taxes withheld from the wages of employees. Assuming that the average wage of these employees is \$40,000, and the withholding rate is 7%, the amount of the refund for each credit would be approximately \$336,000 in the fourth year after the project is placed in service.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Business and Economic Development, Maryland Insurance Administration, Department of Legislative Services

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