

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE
Revised

Senate Bill 819 (Senators Roesser and McFadden)
 Budget and Taxation

Ways and Means

Enterprise Zones - Tax Credits

This bill changes the requirements for enterprise zone tax credit eligibility and increases the amount of the credit that can be claimed. The bill takes effect July 1, 2001 and applies to all taxable years after December 31, 2000.

Fiscal Summary

State Effect: General fund revenues would decrease by \$183,500 and Transportation Trust Fund (TTF) revenues would decrease by \$16,500 in FY 2002. Out-year revenue losses assume a constant rate of enterprise zone tax credit claims. Potential revenue gain to the extent that the bill increases economic development and employment. Expenditures would not be affected.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$183,500)	(\$183,500)	(\$183,500)	(\$183,500)	(\$183,500)
SF Revenue	(16,500)	(16,500)	(16,500)	(16,500)	(16,500)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$200,000)	(\$200,000)	(\$200,000)	(\$200,000)	(\$200,000)

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

Local Effect: Minimal local government revenue loss to the extent that credits are claimed against the corporate income tax. Potential revenue gain to the extent that the bill increases economic development and employment in economically distressed areas.

Small Business Effect: Potential meaningful. Small businesses that qualify for the enterprise zone credit will be able to claim a larger credit in some cases.

Analysis

Bill Summary: The bill expands the definition of a qualified employee for whom a business can take an enterprise zone credit to require that the employee earns at least 150% of the federal minimum wage (\$5.15 per hour). It also increases the number of hours required to be worked by an employee being claimed for the credit from 25 to 35. It increases the credit that can be claimed by businesses located in a focus area within an enterprise zone and those outside the focus area, as well as the credits that can be claimed by all enterprise zone businesses for an economically disadvantaged employee and other qualified employees. The increase is set forth below:

	Current Credit <u>Amounts</u>	Increase Under <u>HB 1155</u>
<u>Focus Area</u>		
• Credit for economically disadvantaged employees	\$3,000 (1 st year)	\$4,500
	\$2,000 (2 nd year)	\$3,000
	\$1,000 (3 rd year)	\$1,500
• Credit for other qualified employees	\$1,000	\$1,500
	\$0	-
	\$0	-
<u>Enterprise zone only</u>		
• Credit for economically disadvantaged employees	\$1,500	\$3,000
	\$1,000	\$2,000
	\$500	\$1,000
• Credit for other qualified employees	\$500	\$1,000
	\$0	-
	\$0	-

The bill also directs DBED and the Comptroller of the Treasury to jointly assess the effectiveness of the tax credits provided to businesses in enterprise zones and focus areas, including the number and amounts of credits annually granted and the ability of the credits to attract and retain businesses within those zones. By December 15 of each year, beginning in 2002, DBED and the Comptroller must submit to the Governor and the General Assembly a report outlining their findings.

Current Law: Businesses located in an enterprise zone can claim a tax credit against corporate or personal income taxes for wages paid to newly hired employees. To qualify, the business must hire at least one employee who:

- is new or rehired after being laid off for more than one year;
- worked for the business for at least 25 hours per week for 6 months or more;
- spends at least half of the workday in the enterprise zone or on activities of the business resulting from its location in the zone;
- is hired after the date the enterprise zone was created or after the business was located there, whichever is later; and
- is not hired to replace someone who was hired by the business in the last four years.

Any unused credit can be carried forward for the next five taxable years. The credit is based on the wages paid during the taxable year and is available to corporations, sole proprietorships, and various types of pass-through entities. Businesses located in a focus area or that hire employees who are certified as economically disadvantaged can claim a larger credit. A focus area is an area located in an enterprise zone that meets at least three of five criteria related to unemployment, crime, and poverty rates or the percentage of substandard housing or vacant commercial property.

Background: The General Assembly created the enterprise zone tax credit in 1996 to encourage businesses to locate in economically distressed areas and hire residents from those areas. In 1999, it established the focus area credit (Chapter 467) that increased the enterprise zone credits for businesses in particularly distressed parts of an enterprise zone. The State Comptroller indicates that these and other credits are not fully used and cites several reasons, including administration and complexity. However, the usage of enterprise zone tax credits is growing. Twenty-three credits were claimed in tax year 1996 and 58 in tax year 1997.

State Fiscal Effect: General fund revenues would decrease by approximately \$183,500 annually beginning in fiscal 2002 and TTF revenues would decrease by approximately \$16,500 based on the following facts and assumptions:

- approximately \$100,000 was claimed in enterprise zone credits in each tax years 1996 and 1997;

- the amount of the enterprise zone tax credit is doubled;
- focus area credits were claimed on less than 5% of returns claiming an enterprise zone credit; and
- approximately one-third of the credits are claimed on corporate income tax returns.

Future years reflect a constant amount of credits being claimed.

Local Revenues: Local jurisdictions would lose approximately \$8,000 annually as a result of credits being claimed on the corporate income tax returns. However, they also receive increased tax revenue to the extent that the bill spurs additional employment.

Small Business Effect: The bill would benefit small businesses by allowing them to take a larger credit against their income tax liability. However, some small businesses may no longer qualify for the credit for hiring an economically disadvantaged employee if they do not meet the wage requirement under the bill.

Additional Information

Prior Introductions: None.

Cross File: HB 1155 (Delegate Hill, *et al.*) – Ways and Means.

Information Source(s): Office of the Comptroller, Department of Business and Economic Development, Department of Legislative Services

Fiscal Note History: First Reader – March 19, 2001
ncs/jr Revised – Senate Third Reader – March 30, 2001

Analysis by: Ann Marie Maloney

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510