Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1230 (Delegate La Vay)
Ways and Means

Income Tax - Credit for Qualified Development Project

This bill provides that an individual or corporation may claim a credit against the State income tax in an amount equal to 25% of "qualified development expenditures" for a "qualified development project" in a priority funding area (infill development only), an enterprise zone, a qualified distressed county, or an arts and entertainment district. Any excess credit may be carried forward for ten years. Credits associated with a completed qualified development project that is sold may be transferred.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: Significant decrease in general fund and Transportation Trust Fund (TTF) revenues beginning in FY 2003 (in the millions of dollars). The actual cost of the bill would depend on the number of qualified development projects undertaken each year and the amount of qualified development expenditures for each project.

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. Seventy-five percent of corporate tax revenues are distributed to the general fund, and 25% are distributed to TTF. Of the 25% distributed to TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A qualified development expenditure is defined as any amount that is: (1) properly chargeable to a capital account; and (2) is expended for a qualified development project. A qualified development project is defined as a new development project for which qualified development expenditures, during the 24-month period selected by the taxpayer ending with or within the taxable year, exceed: (1) for owner-occupied residential property, $5,000; or (2) for all other property, the greater of the adjusted basis of the structure or $5,000.

The credit is applicable to qualified development expenditures for a qualified development project, whether the project is: (1) income producing real property; or (2) nonincome producing real property.

Current Law: No tax credit of this type exists under the Maryland income tax.

State Fiscal Effect: While the actual cost of the bill cannot be reliably estimated, it could be significant. The cost of the bill depends on the number of qualified development projects undertaken each year and the amount of qualified development expenditures for each project, neither of which can be reliably estimated.

The bill could affect a significant number or development projects across the State, including many of the projects that would qualify for the Heritage Structure Rehabilitation Tax Credit. It is estimated that the over $100 million in Heritage Structure Rehabilitation Credits could be claimed. The bill could affect both new construction and rehabilitation projects.

Credits claimed on personal income tax returns reduce general funds in the amount of the credit taken. Of credits claimed by corporations, 75% of the credit would be a loss of general fund revenue and 25% would be a loss of TTF revenue. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

Businesses that claim the credit would receive a double benefit for expenses that are claimed as a deduction on their federal income tax returns.

The revenue loss could be partially offset to the extent that: (1) the tax credit generates economic activity that would otherwise have not taken place without the credit; and (2) that additional economic activity generates additional sales tax, income tax, or property tax revenue. The Office of the Comptroller would incur a one-time expenditure of $42,400 to make changes to the SMART processing systems to add the credit to form

502CR of the income tax return. The Department of Legislative Services advises that since forms and instructions are updated annually, the cost of these changes could be absorbed within existing resources.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by 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% are distributed to local jurisdictions.

Small Business Effect: Small businesses that undertake qualified development projects would realized a reduced income tax liability.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

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