Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

House Bill 762 (Delegate Taylor)
Ways and Means Budget and Taxation

One Maryland Economic Development Tax Credits - Refunds - Businesses Creating Higher Wage Jobs

This bill alters the One Maryland Economic Development Tax Credit by accelerating the ability of a qualified business entity to claim refunds from the fourth taxable year to the second taxable year following the taxable year in which the qualified business entity locates in the distressed county, and apply the credits over the 14-year carry forward period, if the pay for the majority of the qualified positions created is at least 250% of the federal minimum wage.

The bill takes effect July 1, 2002 and is applicable to any business entity that first notifies the Department of Business and Economic Development (DBED) of its intent to seek certification for the One Maryland Tax Credit on or after July 1, 2002.

Fiscal Summary

State Effect: The changes to the One Maryland tax credit could impact State revenues in two ways: revenue losses would be accelerated because making the refundability of the credit available two years sooner increase the number of years within the carry forward period in which a refund may be claimed; and, revenues could be reduced to the extent the changes increase participation. The actual impact of the bill cannot be reliably estimated but could be significant.

Local Effect: Local government revenue losses would be accelerated. Seventy-five percent of corporate tax revenues are distributed to the general fund, and 25% is distributed to the Transportation Trust Fund (TTF). Of the 25% distributed to TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Potential meaningful.

Analysis

Current Law: 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: Tax year 2000 was the first year in which tax credits could be claimed under the One Maryland program. Income tax data is incomplete at this time.

The bill could reduce State revenues in two ways. Making the refund of excess credits available in the third year of the project, as opposed to the fifth year as under current law, has the effect of increasing the number of years within the carry forward period in which a refund may be claimed by two years. This would allow taxpayers to claim their refunds 2 years sooner and then have 11 years to use the excess for those instances where a taxpayer was unable to use the entire amount of excess credit in 9 years as under current law. Refunds in any given year cannot exceed the amount of withholding taxes paid by the employer. However, the amount of this decrease cannot be reliably estimated.

To the extent that the changes to the One Maryland tax credit proposed by the bill increase participation in the program, State revenues would decrease accordingly. However, the effect of the bill on participation cannot be reliably estimated.

Of those credits that are claimed by corporations, 75% of the credit would be a loss of general fund revenues, and 25% would be a loss of TTF revenues.

The revenue loss could be partially offset to the extent that: (1) the changes to the One Maryland tax credit generates economic activity that otherwise would not have taken place; and (2) additional economic activity generates additional sales tax, income tax, or property tax revenues. Legislative Services advises, however, that it cannot be determined how much of this economic activity would have taken place without the credit, reducing the impact of any indirect tax revenue recoupment.

As a point of reference, 250% of the federal minimum wage is approximately $25,750 per year and 150% of the federal minimum wage is approximately $15,450 per year. The 2000 median household income for Maryland residents was $51,695 and the per capita income was $33,621.

Local Fiscal Effect: Local government revenue losses would be accelerated as a result of the bill as well. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Small businesses that locate in the qualified counties and qualify for the credits would be positively impacted. Existing small businesses would also benefit indirectly if the bill increases development and economic activity in the qualified counties.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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