HB 1126

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1126 (Delegate Hixson, *et al.*)
Ways and Means Budget and Taxation

Tax Credit Administration Act of 2002

This bill repeals the requirement that the Job Creation Tax Credit be taken ratably with one-half of the credit taken annually for two years. The bill also increases, from five to seven years, the time period during which taxpayers may carry forward excess credits for the Employment Opportunity, Disability Employment, Enterprise Zone, and Businesses that Create New Jobs tax credits. Finally, the bill alters specified reporting requirements for the Job Creation Tax Credit and Businesses That Create New Jobs Tax Credits.

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

Fiscal Summary

State Effect: The bill makes changes to existing tax credit programs that could impact State revenues in three ways: revenue losses associated with the Job Creation Tax Credit would be accelerated; extending the carry forward period could reduce revenues in future years; 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. As mentioned above, 75% 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 the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Minimal.

Analysis

Current Law: The Job Creation Tax Credit be must taken ratably with one-half of the credit taken annually for two years. The carry forward period for excess credits for the Employment Opportunity, Disability Employment, Enterprise Zone, and Businesses that Create New Jobs tax credits is five years.

State Fiscal Effect: The bill could reduce State revenues in three ways. Repealing the requirement that the Job Creation Tax Credit be taken ratably over two years has the effect of accelerating the revenue loss associated with the credit. Under the bill, the entire amount of the credit, depending on the taxpayers income tax liability, may be taken in the first year instead spreading the amount over two years. This in turn, would mitigate the loss that would occur in the second year under current law. For example, if a taxpayer were able to claim a $500,000 tax credit, and had sufficient income tax liability to absorb the full amount of the credit, the full $500,000 would be claimed in year one under the bill, as compared to $250,000 being claimed in each of year one and year two as under current law. The actual impact cannot be reliably estimated because it is not known how many persons would claim the Job Creation Tax Credit in a given tax year. However, since the credit has been in effect, the amount of the credit claimed each year has been increasing, as shown in **Exhibit 1.**

Exhibit 1
Job Creation Tax Credit

Year	Personal Income Tax Returns	Corporate Income Tax Returns
1996	$0	$68,629
1997	9,112	111,139
1998	51,140	194,020
1999	703,071	997,103
Total	**$763,323**	**$1,350,891**

By increasing the carry forward period from five to seven years for the specified income tax credits, revenues would decrease in year six and seven for those instances where a taxpayer was unable to use the entire amount of excess credit in five years. However, the amount of this decrease cannot be reliably estimated.

Finally, to the extent that the changes to the tax credit programs proposed by the bill increase participation in these credit programs, 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 revenue, and 25% would be a loss of TTF revenue.

The additional reporting requirement can be absorbed within existing agency budgeted resources.

To the extent that: (1) the provisions of the bill generate economic activity that would otherwise have not taken place without the changes to the existing tax credits by making them more attractive to businesses; and (2) that additional economic activity generates additional sales tax, income tax, or property tax revenue, then there may be some partial offset of the potential revenue loss resulting from the bill. Legislative Services advises, however, that it cannot be determined how much of this economic activity would have taken place without the bill reducing the impact of any indirect tax revenue recoupment.

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.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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