HB 213

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 213 (Allegany County Delegation and Garrett County Delegation)
Ways and Means

Job Creation Tax Credits - Definition of "State Priority Funding Area"

This bill alters the definition of State priority funding area with regard to the Job Creation Tax Credit, so that it is the same as under the Smart Growth program.

The bill takes effect July 1, 2003 and applies retroactively to all taxable years beginning after December 31, 1996.

Fiscal Summary

State Effect: Potential decrease in general fund and Transportation Trust Fund (TTF) revenues. The extent of the decrease depends on the number of counties that would establish additional priority funding areas, the number of businesses that would use the credit, the number of jobs that would be created, and the wages paid to qualified employees.

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. Seventy-five percent of corporate tax revenues is 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: Minimal.

Analysis

Current Law: Under the Job Creation Tax Credit, a State priority funding area is defined as: (1) an incorporated municipality; (2) a designated neighborhood, as defined in Article 83B, Section 4-202; (3) an enterprise zone as designated by the Department of

Business and Economic Development or by the U.S. government; (4) those areas of the State located between Interstate Highway 495 and the District of Columbia; (5) those areas of the State located between Interstate Highway 695 and Baltimore City; (6) no more than one area in a county designated by the county as a priority funding area under Section 5-7B-03(c) of the State Finance and Procurement Article; and (7) that portion of the Port Land Use Development Zone that has been designated as an area appropriate for growth in the county comprehensive master plan.

Under the Smart Growth program, the definition of a priority funding area is similar. One of the differences is that under the Smart Growth definition a county may designate any area as a priority funding area instead of just one as under the definition applicable to the Job Creation Tax Credit.

Background: The Job Creation Tax Credit program, established by Chapter 84 of 1996, provides an income tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. The amount of the credit depends on the number of jobs created and wages paid.

The threshold for eligibility is the creation of 60 new jobs within a two-year period. The threshold is lowered to 25 new jobs if the new jobs are created within a State priority funding area (PFA). Under current law, only one county-designated PFA is eligible under the Job Creation Tax Credit.

The bill makes the definition of priority funding area the same for both the Job Creation Tax Credit and the Smart Growth program and would apply to all tax years after 1996.

State Fiscal Effect: The bill only applies to those businesses that add between 25-59 new jobs. Businesses that create 60 or more jobs may be located anywhere in a county and receive the credit. General fund and TTF revenues could decrease to the extent that more businesses use the Job Creation Tax Credit by expanding or establishing facilities in PFAs. However, the extent of the potential effect cannot be reliably estimated as it is not known how many, if any, counties would establish additional PFAs, the number of businesses that would use the credit, the number of jobs that would be created, and the wages paid to qualified employees.

In addition to changing the areas in which jobs can be created in order to claim the credit, the provision in the bill which makes it retroactive could provide a benefit for actions already taken and reduce revenues in future year(s) when the credits are claimed.

Credits taken on personal income tax returns would reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues is distributed to the general fund and 25% is distributed to the TTF, credits taken on corporate income tax returns would reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues would be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

For tax years 1996 through 2001, the total amount of job creation tax credits claimed was approximately $4.3 million, which includes both individual income tax returns and corporate returns. For that same period, 6,932 jobs were created.

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

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues is 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: A similar bill was introduced as HB 760 in the 2002 session, which was a departmental bill by the Department of Business and Economic Development. No action was taken by the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Allegany County, Garrett County, Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

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