Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE
Revised

House Bill 255 (Chairman, Ways and Means Committee)
(By Request – Departmental – Business and Economic Development)

Ways and Means Budget and Taxation

Job Creation Tax Credit - Sunset Extension

This departmental bill extends the January 1, 2007 termination date of the Job Creation Tax Credit to January 1, 2010.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) revenues would continue to decrease after FY 2007. The amount of the decrease cannot be reliably estimated and depends on the number of businesses that would use the credit, the number of jobs that would be created, and the wages paid to qualified employees, but could be significant.

Local Effect: Local government revenues would continue to decline after FY 2007 as a result of corporate taxpayers claiming the credits proposed in the bill. Seventy-six percent of corporate tax revenues is distributed to the general fund and 24% is distributed to the TTF. Of the 24% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: The Department of Business and Economic Development has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: The Job Creation Tax Credit terminates January 1, 2007.

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).

State Fiscal Effect: 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. By repealing the termination date, general fund and TTF revenues would continue to decrease beyond fiscal 2007. The amount of the decrease cannot be reliably estimated and depends on the number of businesses that would use the credit, the number of jobs that would be created, and the wages paid to qualified employees, but could be significant.

To the extent that: (1) the changes to the sunset repeal 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.

Credits taken on personal income tax returns reduce general fund revenues in the amount of the credits. Because 76% of all corporate income tax revenues is distributed to the general fund and 24% is distributed to the TTF, credits taken on corporate income tax returns reduce general fund revenues by 76% of the amount of the credits taken, and TTF revenues would be reduced by 24% of the credits taken. In addition, 30% of the 24% 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.

Local Fiscal Effect: Local government revenues would continue to decline as a result of corporate taxpayers claiming the Job Creation Tax Credit. As mentioned above, 75% of corporate tax revenues is distributed to the general fund and 24% is distributed to the TTF. Of the 24% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 4, 2003
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