

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 731 (Senator Pinsky)
 Budget and Taxation

Revenue Enhancement Act

This bill repeals certain State income tax credits, eliminates certain State and local property exemptions, eliminates certain excise tax exemptions, repeals the single sales factor apportionment factor for multistate manufacturers, and imposes the 2% premium tax on health maintenance organizations (HMOs) and Medicaid managed care organizations (MCOs). **Exhibit 1** lists the individual changes proposed by the bill.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund and special fund revenue increase by approximately \$71.8 million in FY 2005. Out-year estimates reflect annualization and inflation, and expected growth in credit and exemptions claimed.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$67.1	\$99.3	\$110.4	\$121.9	\$133.4
SF Revenue	4.8	4.1	4.3	4.4	5.0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$71.9	\$103.4	\$114.7	\$126.3	\$138.4

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local revenues increase significantly as a result of tax credits no longer being claimed against the corporate income tax and due to the repeal of certain property tax exemptions.

Small Business Effect: Meaningful.

Analysis

Current Law: Maryland tax law provides for a variety of tax credits and exemptions.

Public service companies may claim a credit against the public service company franchise tax in the amount of \$3 for each ton of Maryland-mined coal purchased in the calendar year. Cogenerators and specified electricity suppliers, not subject to the public service company franchise tax, may claim a credit against the State income tax in the amount of \$3 for each ton of Maryland-mined coal purchased in the calendar year.

Businesses that incur qualified research and development expenses in Maryland are entitled to a tax credit. The total credits for all businesses may not exceed \$6 million per year. There are two types of research and development tax credits available to businesses: (1) the Basic Research and Development Credit is equal to 3% of the Maryland qualified research and development expenses paid during the tax year, up to the Maryland base amount; and (2) the Growth Research and Development Credit is equal to 10% of the Maryland qualified research and development expenses paid during the year that exceed the Maryland base amount.

Businesses located in Maryland that create new positions and establish or expand business facilities in the State may be entitled to a tax credit. To be eligible for the State tax credit, businesses must first have been granted a property tax credit by a local government of Maryland for creating the new jobs. The credit may be taken against corporate income tax, personal income tax, or insurance premiums tax. The credit may be applied to only one of these tax types in addition to the property tax. The credits are calculated as a percentage of the local property tax liability on the new or expanded portion of the facility.

Chapter 633 of 2001 changed the formula used to apportion income to the State, for purposes of the corporate income tax, for “manufacturing corporations” that carry on a trade or business in and out of the State from a three-factor apportionment formula to a single sales factor apportionment.

There is a property tax exemption for public airports located on private land and certain aircraft. There is a special assessment provision for property tax purposes for golf courses and country clubs. Chapter 571 of 2002 allows the State Department of Assessments of Taxation (SDAT) to establish regulations altering the assessment of golf course and country club land. This land is currently assessed at \$1,000 per acre.

The vessel excise tax is equal to 5% of the purchase price of the vessel, motor, and accessories (excluding the trailer) or the current fair market value if the vessel was purchased more than three years ago. For purpose of calculating the vessel excise tax, there is a deduction allowed for the value of a trade-in taken by a Maryland-licensed boat dealer or boat dealers licensed by another state or country.

Chapters 5 and 6 of 1999 allowed income tax credits for wages paid to employees of the qualified corporate headquarters of a multijurisdictional electric company.

The State does not impose the insurance premium tax on HMOs or MCOs.

State Revenues: As a result of the provisions of the bill, general fund and special fund revenues increase as indicated in Exhibit 1.

SDAT indicates it cannot reliably estimate the revenue impact from eliminating the property tax exemption for aircraft. SDAT estimates that under the provisions of this bill, 4,300 aircraft would be subject to taxation.

Small Business Effect: Small businesses that receive exemptions and credits would be affected by the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Wicomico County, Allegany County, Montgomery County, Prince George's County, Talbot County, Department of Natural Resources, Department of Business and Economic Development, Comptroller's Office, Department of Health and Mental Hygiene, Maryland Insurance Administration, Baltimore City, Department of Legislative Services

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Exhibit 1
SB 731 Fiscal Impact

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Repeal Maryland-mined Coal Tax Credit					
General Fund	\$14.1	\$14.7	\$15.3	\$15.9	\$16.5
Special Fund (TTF)	0.4	0.4	0.4	0.4	0.4
Impose HMO/MCO Premium Tax					
General Fund	\$46.4	\$79.8	\$89.3	\$100.0	\$112.2
Special Fund (TTF)	-0.3	-0.6	-0.7	-0.7	-0.8
Repeal Trade-in Discount Boat Excise Tax					
Special Funds (DNR)	\$1.7	\$1.8	\$1.8	\$1.9	\$1.9
Repeal Single Sales Factor Apportionment for Multistate Manufactures					
General Funds	\$3.0	\$3.2	\$3.3	\$3.5	\$3.7
Special Funds (TTF)	1.0	1.0	1.1	1.1	1.2
Repeal Public Airports on Private Land Property Tax Exemption					
Special Funds (Annuity Bond Fund)	*	*	*	*	*
Repeal Golf Course property tax treatment					
Special Funds (Annuity Bond Fund)	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2
Repeal Research and Development Tax Credit					
General Fund	\$0.8	\$0.8	\$1.5	\$1.5	\$0.0
Special Fund (TTF)	0.2	0.2	0.5	0.5	0.0
Repeal Electric Utility Qualified Headquarters					
General Fund	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9
Special Fund (TTF)	0.6	0.6	0.6	0.6	0.6
Repeal Businesses that Create New Jobs Tax Credits					
General Fund	\$0.9	\$0.9	\$0.9	\$1.0	\$1.0
Special Fund (TTF)	0.1	0.1	0.1	0.1	0.1
Totals:					
Special Fund (Bond Annuity Fund)	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2
Special Fund (TTF)	\$2.1	\$1.2	\$1.4	\$1.4	\$0.9
Special Fund (DNR)	\$1.7	\$1.8	\$1.8	\$1.9	\$1.9
Total Special Funds	\$4.8	\$4.0	\$4.3	\$4.4	\$4.0
Total General Funds	\$67.1	\$99.3	\$110.4	\$121.9	\$133.4
Total Revenues	\$71.8	\$103.4	\$114.7	\$126.3	\$137.4