

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 219 (Chairman, Ways and Means Committee)
(By Request – Departmental – Business and Economic Development)
Ways and Means Budget and Taxation

Job Creation Tax Credit - Extension

This departmental bill extends the sunset date for the Job Creation Tax Credit from January 1, 2007 to January 1, 2010.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) decrease in FY 2008 and FY 2009. 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. Under one set of assumptions, revenues could decrease by approximately \$875,000 in FY 2008 and \$1.9 million in FY 2009.

Local Effect: Local government revenues would decrease in FY 2008 and 2009 as a result of corporate taxpayers claiming the credit. 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 for highway user projects. Based on the assumption that 75% of credits are claimed against the corporate income tax, local revenues would decline by \$49,000 in FY 2008 and \$106,000 in FY 2009.

Small Business Effect: The Department of Business and Economic Development (DBED) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: The Job Creation Tax Credit was established by Chapter 84 of 1996 and terminates January 1, 2007. It provides a tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. The credit can be applied against the following taxes: corporate or personal income; insurance premium; and public service franchise. In any year, however, the credit may only be applied against one tax. The credit can be recaptured during any of the three taxable years following the claiming of the credit.

The threshold for eligibility is the creation of 60 new jobs within a two-year period. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 150% of the federal minimum wage (currently approximately \$16,050 annually). The threshold is lowered to (1) 30 new jobs if the average salaries of the new jobs are highly paid as determined by a sliding scale relative to the average State salary; and (2) 25 new jobs if the new jobs are created within a State priority funding area (PFA).

The value of the credit depends on the number of jobs created, the wages of those jobs in the year the credit was claimed, and whether the jobs were created in a revitalization area. If the jobs were not created in a revitalization area, then the credit is equal to the lesser of \$1,000 or 2.5% of the wages paid associated with those jobs in the year the credit was claimed. If the jobs were created in a revitalization area, the credit is equal to the lesser of \$1,500 or 5% of the wages paid associated with those jobs. The credit is ratable for two years. Any unused portion of the credit can be carried forward for up to five tax years. The total credit claimed cannot exceed \$1 million for any one business.

Background: For tax years 1996 through 2002, the total amount of job creation tax credits claimed was approximately \$3.8 million. **Exhibit 1** details the amount of credit claimed since the inception of the program. DBED has issued 5,181 certificates qualifying a job for the tax credit. From 1996-2001, the total private Maryland labor force increased by 221,100.

Exhibit 1
Credit Claimed by Tax Year

<u>Tax Year</u>	<u>Returns</u>	<u>Credits</u>	<u>Average Credit Claimed per Return</u>
1996	4	\$68,629	17,157
1997	9	120,251	13,361
1998	9	276,781	30,753
1999	29	1,592,685	54,920
2000	26	1,261,847	48,533
2001	11	77,365	7,033
2002*	13	466,463	35,882
Total	101	\$3,864,021	\$207,640

*Tax year 2002 does not include returns against the personal income tax.

Since the credit can be carried forward, there are additional credits that have been earned but not claimed. The maximum amount of credits earned but not claimed is approximately \$3.9 million, based on the assumption that all of these 5,181 jobs qualified for the maximum credit of \$1,500.

State Revenues: The actual cost of the bill 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. *For illustrative purposes only*, revenues could decline by approximately \$875,000 in fiscal 2008 and \$1.9 million in fiscal 2009 based on the following facts and assumptions:

- In fiscal 2004, according to the *Maryland Tax Expenditure Report*, \$1.0 million in credits were earned.
- The amount of credits claimed will grow by 15% annually.
- The credit is ratable over two years. One-half of tax year tax 2007 will be claimed in fiscal 2008 and one-half in fiscal 2009. One-half of tax year 2008 will be claimed in fiscal 2009.
- Companies claiming the credit will have sufficient tax liability in fiscal 2008 and 2009 to claim the entire credit.

To the extent that annual growth rates are higher, revenue losses will be greater.

Additional Information

Prior Introductions: HB 255 of 2003, a similar bill, was passed by the House but was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, U.S. Bureau of Labor Statistics, Department of Legislative Services

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