

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 731
Ways and Means

(Washington County Delegation)

Budget and Taxation

Washington County - Tax Credit for Businesses That Create New Jobs

This bill alters the definition of new permanent full-time position for purposes of the Businesses That Create New Jobs Tax Credit, so as to include, for Washington County, a contract position of definite duration lasting at least 12 months with an unlimited renewal option.

The bill takes effect July 1, 2006 and applies to taxable years beginning after December 31, 2006.

Fiscal Summary

State Effect: Potential decrease in general fund revenues beginning in FY 2008. The amount of the decrease depends on the number of entities claiming the local property tax credit in Washington County and the property assessment.

Local Effect: Potential decrease in Washington County property tax revenues beginning in FY 2008. The amount of the decrease depends on the number of entities claiming the property tax credit and the property assessment.

Small Business Effect: Potential meaningful. To the extent that small businesses qualify for the credit, they would realize a reduction in State income tax and local property tax payments.

Analysis

Current Law: Businesses located in Maryland that create new positions and establish or expand business facilities in the State are entitled to a tax credit under specified

circumstances. The credit may be taken against the corporate income tax, personal income tax, or insurance premiums tax. The credit may be applied to only one of these taxes in addition to the local property tax. To be eligible for the State tax credit, businesses must first have been granted a local property tax credit for creating the new jobs.

In order to qualify for the credit, a business must create at least 25 new positions as part of the new or expanded business facility in Maryland (5,000 square feet or more). Businesses located in smaller counties (population of 30,000 or less) must create at least 10 new positions.

An enhanced credit is available for businesses that create or expand a new business facility in Maryland of 250,000 square feet or more and: (1) employ 2,500 employees and create 500 new positions that pay at least 150% of the minimum wage; or (2) create 1,250 new positions that are paid at least 150% of the minimum wage.

The business must then apply to, and receive certification from, the local government in which the facility is located for a property tax credit.

The county or city government must then notify the State Department of Assessments and Taxation (SDAT) that the property tax credit has been approved. SDAT then calculates and certifies the amount of the allowable tax credit and provides this information to the Comptroller.

Sole proprietorships, corporations, and pass-through entities, such as partnerships, subchapter S corporations, limited liability companies, and business trusts may claim the tax credit.

Background: This bill would make the definition of a “full-time position” the same for Washington County as it is currently for Montgomery County for purposes of the tax credit. For the property tax year beginning July 1, 2004, SDAT certified that 12 businesses in Montgomery County and 1 in Washington County were eligible for approximately \$1.6 million in State income tax credits.

Washington County grants a property tax credit on 52% of the assessment for the first two years and then a lower percentage for the each of following four years. The State’s income tax credit, as calculated by SDAT, is based on 28% of the assessment for the first two years.

State Fiscal Effect: To the extent that more property tax credits are granted in Washington County, general fund revenues could decrease beginning in fiscal 2008. Entities may claim a credit against the individual income tax, corporate income tax, or the

insurance premium tax. The amount of any general fund increase depends on the number of entities claiming the credit and the property assessment.

For the tax year beginning July 1, 2004, SDAT certified that one entity in Washington County was eligible to claim \$22,031 in State income tax credits. This was the first year the company was eligible for the tax credits. Data is not yet available for the tax year that began July 1, 2005.

Local Fiscal Effect: Property tax revenues in Washington County could decrease to the extent that more entities claim the Businesses That Create New Jobs property tax credit in Washington County, beginning in fiscal 2008. However, the amount of the decrease cannot be reliably estimated and depends on the number of entities claiming the property tax credit and the property assessment for each.

For tax year beginning July 1, 2004, Washington County granted one entity a property tax credit for \$40,915. The total assessment on the property was \$7.5 million. As noted, this was the first year the company was eligible for the tax credits. Data is not yet available for the tax year that began July 1, 2005.

Washington County indicates that the changes proposed by the bill would have minimal, if any, effect on local property tax revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Washington County, Department of Legislative Services

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