

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE  
Revised

House Bill 941  
Ways and Means

(Delegate Hixson, *et al.*)

Budget and Taxation

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Enterprise Zones - Property Tax Credits After Expiration of Designation of  
Enterprise Zone

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This bill allows any business located in a State enterprise zone to continue being eligible for property tax credits for an additional five years after the expiration of the enterprise zone designation. Businesses are required to meet all other qualifications for the tax credits as provided under current law.

The bill takes effect July 1, 2006.

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Fiscal Summary

**State Effect:** General fund expenditures could increase by a significant amount in FY 2007 and beyond due to reimbursement payments for additional property tax credits. Revenues would not be affected.

**Local Effect:** Local property tax revenues would decrease to the extent that additional businesses qualify for property tax credits. Local expenditures would not be affected.

**Small Business Effect:** Minimal.

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Analysis

**Current Law:** Businesses located within a Maryland enterprise zone are eligible for local property tax credits and State income tax credits for 10 years after the designation of the enterprise zone. Any business moving in after the designation qualify for the tax credits if the business meets all applicable eligibility standards, is certified as being in compliance by the appropriate local government, and creates new or additional jobs or

makes capital investments. Any business that is already located in an area that is designated an enterprise zone can qualify for the credit for the capital investment and labor force expansion occurring after designation of the enterprise zone.

Real property tax credits are 10-year credits against local real property taxes on a portion of the qualifying real property improvements in the enterprise zone. The State Department of Assessments and Taxation (SDAT) reimburses local governments for one-half of the cost of the property tax credit. The income tax credit is based on wages paid to newly hired employees and can be taken over a one- to three-year period. The credits are based on the wages paid during the taxable year to each qualified employee and vary in value and length of time depending on whether the employee is certified from the Department of Labor, Licensing, and Regulation as being economically disadvantaged and if the business is located in a focus area.

**Background:** Maryland’s enterprise zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property owners located in economically distressed areas. The program was created in 1982 and has grown to enterprise zones in 14 jurisdictions. **Exhibit 1** lists the number of businesses located in an enterprise zone and the estimated amount SDAT will reimburse local governments in fiscal 2007 for enterprise zone property tax credits.

**Exhibit 1**  
**State Reimbursement of Property Tax Credits**  
**Urban Enterprise Zones**

<u>County</u>	<u>Number of Businesses</u>	<u>State’s Reimbursement of Local Property Tax Loss</u>
<b>Allegany</b>		
Cumberland	24	\$302,757
Frostburg	6	10,927
<b>Baltimore City</b>		
Central Area	15	192,041
Consolidated	69	1,011,469
East Baltimore	54	545,425
Empowerment Zone 1	10	11,746
Empowerment Zone 2	12	621,023
Empowerment Zone 3	3	1,210
Port Covington/Westport/Fairfield	12	70,638
West Baltimore	9	341,519
<b>Baltimore</b>	<b>36</b>	<b>478,523</b>

<u>County</u>	<u>Number of Businesses</u>	<u>State's Reimbursement of Local Property Tax Loss</u>
<b>Calvert</b>	15	39,522
<b>Cecil</b>	11	1,130,239
<b>Dorchester</b>		
Cambridge	17	793,529
Hurlock	2	19,241
<b>Garrett</b>	20	43,433
<b>Harford</b>		
Aberdeen	64	1,475,409
Edgewood	55	335,605
Havre de Grace	37	169,606
<b>Montgomery</b>		
Silver Spring	92	1,546,138
<b>Prince George's</b>	15	490,270
<b>St. Mary's</b>	15	21,712
<b>Somerset</b>	6	2,655
<b>Washington</b>		
Airport	3	24,971
Hagerstown	23	179,990
Hancock	4	1,212
Interstate 81	15	354,022
<b>Wicomico</b>	37	70,143
<b>Worcester</b>	<u>12</u>	<u>33,481</u>
<b>Total</b>	<b>693</b>	<b>\$10,318,356</b>

Source: State Department of Assessments and Taxation

Since inception, the number of income tax credits claimed has been relatively modest compared to the property tax credits. For example, a total of approximately \$370,500 in income tax credits were claimed in tax year 2004, \$786,100 in tax year 2003, and \$752,000 in tax year 2002.

**State Fiscal Effect:** The bill provides that, effective July 1, 2006, any business that is located in a State enterprise zone that has expired can qualify for enterprise zone property tax credits for an additional five years after the expiration of the enterprise zone. General fund expenditures could increase substantially in fiscal 2007 and beyond due to additional reimbursement payments made to local governments by SDAT. The amount of any decrease depends on the number of enterprise zones that are not renewed in a

given year, the additional number of businesses that qualify, and the amount of qualifying capital investments made.

SDAT advises that the Silver Spring enterprise zone in Montgomery County expires later this year and will not likely be renewed as the area will not meet the requirements for being an economically-distressed area. SDAT estimates that it will expend approximately \$1.5 million in fiscal 2007 due to property tax credits claimed in the Silver Spring enterprise zone. Within the next five fiscal years, 11 enterprise zones will be subject to termination.

**Local Fiscal Effect:** Local property tax revenues would decrease to the extent that additional businesses qualify for enterprise zone property tax credits. Of the total decrease in property tax revenues, one-half is reimbursed by the State.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 764 (Senator Hogan, *et al.*) – Budget and Taxation.

**Information Source(s):** Comptroller's Office, State Department of Assessments and Taxation, Department of Legislative Services

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