

**Department of Legislative Services
Maryland General Assembly
2007 Session**

FISCAL AND POLICY NOTE

House Bill 517
Ways and Means

(Delegate Haddaway, *et al.*)

Income Tax Credit - Oyster Restoration Activity

This bill creates a tax credit against the State income tax for an individual with a commercial oyster license who participates in an oyster restoration activity project associated with the Department of Natural Resources (DNR), the Oyster Recovery Partnership, or the University of Maryland Center for Environmental Sciences. The amount of the credit is equal to \$750, not to exceed the tax liability in the tax year.

The bill takes effect July 1, 2007 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by \$75,000 in FY 2008 due to credits being claimed against the personal income tax. Future years reflect a constant number of individuals claiming the credit. General fund expenditures would increase by \$34,000 in FY 2008, which reflects one-time tax form changes and computer programming expenses at the Comptroller’s Office.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$75,000)	(\$75,000)	(\$75,000)	(\$75,000)	(\$75,000)
GF Expenditure	34,000	0	0	0	0
Net Effect	(\$109,000)	(\$75,000)	(\$75,000)	(\$75,000)	(\$75,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax credit exists.

Background: At its peak, the bay's oyster population acted as a natural filter, removing 133 million pounds of nitrogen annually. Largely due to two diseases, MSX and Dermo, the oyster stock has been severely depleted. Today, the oyster population has dropped to less than 1% of its original population. The 2005 oyster harvest was nearly 44% below the 1995 harvest and 69% below the 2000 harvest. However, the 2004-2005 season harvest increased from the previous season, reversing a five-year trend of declining catches. On a positive note, in DNR's 2005 fall survey, observed oyster mortality was 17%, the lowest it has been since 1989 and much lower than its peak in 2002.

In a November 2006 report, the Chesapeake Bay Foundation (CBF) reported that four elements are critical to a successful oyster restoration effort: (1) cleaner water through reduced nitrogen and sediment pollution; (2) increased oyster production via seed production and disease controls; (3) more oyster reefs; and (4) enforcement of harvest regulations. CBF reported that several key actions need to be taken in order to restore the native oyster. Examples of recommended policy actions include:

- establishing a dedicated funding source for implementation of Maryland's Tributary Strategies to reduce nutrient and sediment pollution;
- authorizing bay bottom areas to be leased for purposes of oyster restoration;
- enhancing penalties for poaching; and
- establishing a task force to address native oyster restoration.

In addition, CBF also recommended an increase in funding for the University of Maryland's Horn Point Hatchery, which produces the vast majority of seed oysters for restoration purposes; a State oyster shell recovery program for reef building; alternative substrate oyster reef projects; and personnel and equipment necessary for on-water enforcement of oyster harvest regulations.

According to DNR, 679 individuals paid the necessary surcharge for a commercial oyster license in the current season. DNR advises that it contracts with about a dozen such individuals each year for oyster restoration projects. The Maryland Watermen's Association advises that it contracts with the Oyster Recovery Partnership for about 25 days of restoration work in the spring and additional days throughout the year. About 40 boats participate in the spring restoration work. Licensees are paid \$425 per day for one person on a boat while a second person is paid \$125. The University of Maryland Center for Environmental Sciences advises that it does not currently contract with

commercial oyster licensees for oyster restoration projects nor does it anticipate doing so in the future.

State Revenues: Credits could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by \$75,000 in fiscal 2008. Based on the information provided by DNR and the Maryland Watermen's Association, it is estimated that about 100 individuals would claim the tax credit in each year. It is assumed that these individuals would have sufficient tax liability to claim the entire amount of the credit. In addition, this estimate assumes that the intent of the bill is to limit the tax credit to the lesser of \$750 or the State income tax liability in the tax year.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 in fiscal 2008 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Natural Resources, Maryland Watermen's Association, University of Maryland Center for Environmental Sciences, Department of Legislative Services

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