HB 34

Department of Legislative Services
Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE

House Bill 34 (Delegates Olszewski and Lafferty)
Ways and Means

Maryland-Mined Coal Credit - Repeal

This bill eliminates the Maryland-mined coal credits.

The bill takes effect January 1, 2008 and applies to tax year 2008 and beyond.

Fiscal Summary

State Effect: General fund revenues could increase by $2.5 million in FY 2008 due to increased estimated payments resulting from repeal of the credit. Transportation Trust Fund (TTF) revenues could increase by $154,000 in FY 2008 due to increased corporate income tax estimated payments. Future years reflect estimated savings from elimination of the credit in each year. Expenditures would not be affected.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	$2.5	$8.4	$8.6	$7.7	$5.4
SF Revenue	.2	.5	.5	.5	.5
Expenditure	$0	$0	$0	$0	$0
Net Effect	$2.6	$8.9	$9.2	$8.3	$6.0

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

Local Effect: Local highway user revenues could increase by $46,200 in FY 2008 and by $160,000 annually in FY 2009 through 2012. Expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 247 of 2006 altered the existing coal-mine credits by limiting the number of credits that can be claimed. Beginning in calendar 2007, a cogenerator or public service company that claims the credit must apply to the State Department of Assessments and Taxation (SDAT) for credit approval by January 15 of the following year in which the Maryland-mined coal was purchased. The maximum amount of credits that SDAT can approve in each tax year is:

- $9 million in calendar 2007 through 2010;
- $6 million in calendar 2011 through 2014;
- $3 million in calendar 2015 through 2020; and
- none in calendar 2021 and beyond.

If the amount of credits applied for exceeds the maximum amounts that can be approved in any tax year, the value of the credit is reduced by the proportional amount of excess credits sought. Of the total credits allowed in calendar 2007 through 2020, $2,250,000 are reserved annually for a facility that uses Maryland-mined coal in a Maryland facility (approximately 750,000 tons of coal).

Public service companies in Maryland can claim a $3 per ton credit for the amount of Maryland-mined coal purchased in a calendar year. This nonrefundable tax credit can be claimed against the PSF tax and cannot exceed the State tax liability for that tax year. Cogenerators and electricity suppliers that are not subject to the public service franchise tax can also claim a $3 per ton credit for the amount of Maryland-mined coal purchased in a calendar year. The credit is restricted to the electricity suppliers that were defined before July 1, 1999 as an electricity company under the Public Utility Companies Article. This restriction does not apply if an electricity supplier is an affiliate of one of the suppliers that were defined as an electricity company prior to July 1, 1999. This nonrefundable credit can be claimed against the State income tax.

Background: Garrett County produces approximately 80% of total State coal production with Allegany County accounting for the remaining. Production is from two adjoining coal basins, Georges Creek and Potomac, located in the North Appalachian coal region. Although 14 coal beds were mined in 2003, nearly three-fourths of the 5.1 million tons in total State production was from the Freeport coal bed. Coal production in 2004 increased by approximately 3.7% totaling approximately 5.3 million tons.

Maryland's coal industry is relatively modest relative to other states. Maryland ranked twentieth of the 26 coal-producing states and accounts for less than 0.5% of total U.S. production. In 2004, surrounding states mined: West Virginia (the second largest coal producer, 148 million tons); Pennsylvania (66 million tons); and Virginia (31.4 million tons). In 2004 the average ton of coal produced per employee per hour in each state was: Maryland (5.11); West Virginia (4.03); Pennsylvania (3.99); and Virginia (2.95).

According to the Bureau of Mines, the coal industry employed 428 coal miners in 2003. This employment figure does not include office, supervisor personnel, or independent truck haulers. The U.S. Energy Information Administration reports that the Maryland coal industry employed a total of 497 individuals in 2004, which includes office and supervisor personnel. According to the Department of Labor, Licensing, and Regulation, in Quarter 1 of 2005 the mining (not just coal) industry in Allegany and Garrett counties employed 627 individuals, had a total payroll of approximately $7.4 million, and an average annual wage of $47,000 ($34,320 in Allegany and $50,444 in Garrett). These wages compare with an annual average wage of $24,440 in Garrett County and $28,285 in Allegany in 2004.

State Revenues: General fund revenues could increase by $2.5 million in fiscal 2008 due to repeal of the credit. TTF revenues could increase by $154,000 in fiscal 2008 due to repeal of the credit. This estimate assumes that the full amount of the credit is claimed in each year. Legislative Services was unable to confirm with SDAT the amount of credits claimed in the last tax year. However, according to the Bureau of Mines, 5.2 million tons of coal were mined in Maryland in 2006; which, based on historic utilization, would exceed the $9 million cap in 2006. To the extent that less coal is mined than the cap in a year, revenue gains would be less than estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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