

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 721

(Chair, Ways and Means Committee) (By Request –  
 Departmental – Business and Economic Development)

Ways and Means

Budget and Taxation

**Job Creation Tax Credit - Termination Provisions**

This departmental bill extends the termination date of the Job Creation Tax Credit from January 1, 2010 to January 1, 2014.

The bill takes effect July 1, 2008.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by \$524,100 in FY 2011 due to extension of the tax credit termination date; Transportation Trust Fund revenues could decrease by \$125,900; and Higher Education Investment Fund revenues could decrease by \$37,100. Future year revenues reflect the estimated number of eligible taxpayers claiming the credit as specified under the program, and annualization. Expenditures would decrease by \$34,000 in FY 2011 due to a reduction of one-time tax form changes and computer programming expenditures at the Comptroller’s Office.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$0	\$0	(\$524,100)	(\$1,191,900)	(\$1,165,500)
SF Revenue	0	0	(163,000)	(370,800)	(362,600)
GF Expenditure	0	0	(34,000)	0	0
Net Effect	\$0	\$0	(\$653,100)	(\$1,562,700)	(\$1,528,100)

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

**Local Effect:** Local highway user revenues would decrease by \$37,800 in FY 2011, \$85,900 in FY 2012, and \$84,000 in FY 2013. Expenditures would not be affected.

**Small Business Effect:** The Department of Business and Economic Development has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

**Current Law:** Chapter 84 of 1996 established the Job Creation Tax Credit which 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. Chapter 159 of 2004 extended the termination of the program from January 1, 2007 to January 1, 2010. Credits can be claimed only for qualified positions at a newly established or expanded facility that commences operations before January 1, 2009.

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 \$18,250 annually). The threshold is lowered to • 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 • 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.

For tax years 1996 through 2005, companies have claimed a total of \$6.8 million in credits. **Exhibit 1** details the amount of credit claimed since the inception of the program through tax year 2005. The Comptroller's Office advises, however, that tax year 1996 through 1999 likely represents incomplete data. Approximately 90% of all credits have been claimed against the corporate income tax.

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**Exhibit 1**  
**Job Creation Tax Credit Program**  
**Credits Claimed by Tax Year**

<u>Tax Year</u>	<u>Returns</u>	<u>Credits</u>	<u>Average Credit</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	40	1,676,693	41,917
2001	17	250,391	14,729
2002	16	570,295	35,643
2003	30	655,570	21,852
2004	30	603,924	20,131
2005	18	968,589	53,811
<b>Total</b>	<b>202</b>	<b>\$6,783,808</b>	<b>\$33,583</b>

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**State Revenues:** Extending the termination date of the Job Creation Tax Credit could decrease State revenues by \$687,100 in fiscal 2011 and by \$1.5 million in fiscal 2013 as shown in **Exhibit 2**.

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**Exhibit 2**  
**Estimated State and Local Revenue Decrease**  
**by Extending Job Creation Tax Credit**

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<i>State Revenues</i>					
GF	\$0	\$0	(\$524,084)	(\$1,191,858)	(\$1,165,469)
TTF	0	0	(125,933)	(286,393)	(280,052)
HEIF	0	0	(37,105)	(84,382)	(82,514)
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$687,121)</b>	<b>(\$1,562,633)</b>	<b>(\$1,528,035)</b>
<i>Local Revenues</i>					
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$37,780)</b>	<b>(\$85,918)</b>	<b>(\$84,016)</b>

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This estimate is based on the historic correlation between the amount of credits claimed and State job growth, the current forecast of State job growth adjusted for BRAC-related federal government jobs. The credit is ratable over two years. One-half of credit year 2010 revenue losses would occur in fiscal 2011. Future years reflect one-half of the previous year and one-half of the current year.

**State Expenditures:** The Comptroller's Office reports that extending the termination date would reduce general fund expenditures by \$34,000 in fiscal 2011 that would have been incurred to remove the tax credit from Form 500CR, the form used by business to claim credits.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 10, 2008  
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