HB 1399

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1399 (Chair, Ways and Means Committee)(By Request - Departmental - Housing and Community Development)

Ways and Means Budget and Taxation

Department of Housing and Community Development - Neighborhood and Community Assistance Program - Individual Donor Eligibility - Tax Credit

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This departmental bill expands the eligibility of the Neighborhood and Community Assistance Tax Credit to include donations made by individuals.

The bill takes effect July 1, 2009, and applies to tax year 2010 and beyond.

Fiscal Summary

State Effect: General fund revenues will decrease by a minimal amount beginning in FY 2011 due to additional credits claimed under the personal income tax. Transportation Trust Fund (TTF) revenues will increase minimally beginning in FY 2011 due to fewer credits claimed under the corporate income tax. Expenditures are not affected.

Local Effect: Local highway user revenues will increase minimally beginning in FY 2011 to the extent that more credits are claimed under the personal income tax and less under the corporate income tax. Local expenditures are not affected.

Small Business Effect: The Department of Housing and Community Development (DHCD) has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Businesses who make qualifying donations under the Neighborhood and Community Assistance Tax Credit Program qualify for a tax credit equal to 50% of the contribution. Individuals do not qualify.

Background: Chapter 636 of 1996 established the Neighborhood and Community Assistance Tax Credit Program. A business can claim tax credits for 50% of the contributions in excess of $500 made to DHCD-approved projects conducted by nonprofit organizations in a Priority Funding Area. The tax credit can be claimed against the personal, corporate, public service franchise, and insurance premiums taxes. Any unused amount of credit can be carried forward five tax years. An application for the tax credit must include the name of the approved project to which the business intends to contribute and certification of the value of any nonmonetary contribution.

Chapter 447 of 2006 altered the tax credit by allowing donations of real property, in addition to goods and monetary contributions, to qualify for the tax credit and by increasing the maximum value of the credit from $125,000 to $250,000. DHCD can approve a maximum of $2.0 million in contributions in any fiscal year, resulting in $1.0 million in tax credits.

The tax credit is in addition to any federal deduction for charitable donations. This deduction typically results in lower federal and State income tax liabilities. For example, a corporation making a $100,000 donation under the program will reduce State and federal income taxes in the current tax year by up to $93,250 while a business filing under the personal income tax could reduce federal, State, and local income taxes by up to $83,000 in the tax year.

DHCD advises that it typically awards the maximum amount of credits in each year, has awarded the maximum amount in fiscal 2009, and anticipates awarding the maximum amount in fiscal 2010. In tax year 2000 through 2005 about 70% of credits have been claimed against the personal income tax.

State Revenues: The bill expands eligibility of the tax credit program to include individuals. The bill does not increase the total amount of credits that can be awarded in each year. General fund revenues will decrease minimally beginning in fiscal 2011 and TTF revenues will increase by a corresponding amount. Based on the existing history of the credit, if extending eligibility to individuals causes an additional 20% of credits to be claimed under the personal income tax, general fund revenues will decrease by about $29,000 annually beginning in fiscal 2011. TTF revenues will increase by a corresponding amount.

The amount of the credit that can be claimed in each year is limited to the taxpayer's tax liability. According to the Comptroller's Office, an average of $518,285 in credits have been claimed in each year (of the maximum $1,000,000) with the remaining amount carried forward to successive tax years. To the extent that individuals, on average, claim a higher percentage of the credit in each year, the bill will increase revenue losses due to the program. This timing issue represents an acceleration of revenue losses and does not change the total fiscal impact of the program.

Small Business Impact: DHCD reports that the bill will have a meaningful impact on small businesses. The total amount of credits available will remain unchanged. To the extent individuals claim the credit, those credits will not be available to small business donors.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development, Comptroller's Office, Department of Legislative Services

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ncs/hlb

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Department of Housing and Community Development – Community Investment Tax Credit Program – Individual Donor Eligibility

BILL NUMBER: HB 1399

PREPARED BY: Department of Housing and Community Development

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.