

Department of Legislative Services  
 Maryland General Assembly  
 2010 Session

FISCAL AND POLICY NOTE

House Bill 1520 (Delegate Myers, *et al.*)  
 Ways and Means

**Tax Credit for New or Expanded Business Facilities**

This bill creates an income tax credit for a business that expands or creates a business facility in the State. The tax credit is equal to 10% of eligible project costs, subject to a maximum of \$50,000. The project must create a minimum of 10 new qualified positions in the State. The Department of Business and Economic Development (DBED) is required to administer the program, adopt regulations implementing the program, and is authorized to award a total of \$10 million in credits.

The bill takes effect July 1, 2010.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$9.0 million in FY 2011 and Transportation Trust Fund (TTF) revenues decrease by \$1.0 million; assuming the maximum amount of credits are awarded by DBED. General fund expenditures increase by \$37,400 in FY 2011 due to one-time tax form and computer programming expenses at the Comptroller’s Office.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	(\$9.0)	\$0	\$0	\$0	\$0
SF Revenue	(\$1.0)	\$0	\$0	\$0	\$0
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$10.0)	\$0	\$0	\$0	\$0

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

**Local Effect:** Local highway user revenues distributed from the TTF decrease by \$305,000 in FY 2011. Local expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** The bill establishes an income tax credit for the eligible costs incurred by a business for an “economic development project” that establishes or expands a business facility in the State that will create at least 10 qualified positions. A qualified position must (1) be a full-time position of indefinite duration; (2) pay at least 150% of the federal minimum wage; (3) be located in the State; (4) be newly created as a result of the business facility expansion or establishment; and (5) be filled. Qualified businesses include persons conducting a trade or business in the State and filing Maryland income tax returns; or nonprofit organizations.

The tax credit is equal to 10% of eligible project costs, subject to a maximum of \$50,000. If the credit amount exceeds the tax liability, the taxpayer can claim a refund for the excess. DBED must certify the amount of expenses that qualify for the credit and is authorized to award a total of \$10 million in credits under the program.

**Current Law:** Numerous State tax credits are designed to promote employment as discussed below. In addition to these State tax credits, businesses can typically deduct employee compensation costs; which typically lowers federal and State income tax liability. Although no exact State tax credit exists, businesses that expand or create facilities can qualify for similar State tax credits as discussed below.

### *Job Creation Tax Credit*

Businesses that expand or establish a facility in Maryland resulting in the creation of at least 60 new jobs within a two-year period may be eligible to claim the job creation tax credit. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 150% of the federal minimum wage. 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 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. The total credit claimed cannot exceed \$1 million for any one business.

### *One Maryland Economic Development Credit*

Businesses that establish or expand a business facility in a priority funding area (PFA) or as part of a project approved by the Board of Public Works, and are located in a “distressed” Maryland county, may be entitled to a tax credit for costs related to the new or expanded facility. The credit for start-up costs is the lesser of 100% of eligible start-up costs (up to \$500,000), less any credits taken in prior years, or

\$10,000 multiplied by the number of employees that have filled the newly created, qualified positions. The credit for project costs is the lesser of 100% of eligible project costs (up to \$5 million), less any credits taken in prior years, or the State income tax liability for the taxable year from the project. An expanded credit is available if the created positions are paid 250% or more of the minimum wage.

### *Enterprise Zone Credit*

Businesses located in a Maryland enterprise zone may be entitled to an income tax credit for wages paid to newly hired employees in addition to a property tax credit. The local enterprise zone administrator must certify the business to qualify for the credit.

The credits are based on the wages paid during the taxable year to each qualified employee. The business must hire at least one employee who (1) is a new employee or an employee rehired after being laid off for more than one year; (2) worked for the business for at least 35 hours per week for six months or more; (3) earns at least 150% of the federal minimum wage; (4) spends at least 50% of the workday either in the enterprise zone or on activities of the business resulting from its location in the enterprise zone or focus area; (5) is hired after the date the enterprise zone was created or the date the business located in the enterprise zone or focus area, whichever is later; and (6) is not hired to replace an individual employed by the business within the last four years.

**State Revenues:** DBED may award a total of \$10 million in credits beginning July 1, 2010. Based on the history of the existing State tax credits described above, it is assumed that DBED will award the maximum amount of credits. As a result, general fund revenues decrease by \$9.0 million in fiscal 2011 and TTF revenues decrease by \$1.0 million. To the extent DBED does not award the maximum amount of credits or business do not claim all of the credits awarded within the fiscal year, revenue losses will be less in fiscal 2011 and will occur beginning in fiscal 2012.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$37,400 in fiscal 2011 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.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 24, 2010  
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