

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE

House Bill 731 (Delegate Lafferty)
 Environmental Matters

Housing and Community Development - Neighborhood and Community Assistance Program - Project Proposals

This bill increases the maximum sum of contributions eligible for a tax credit offered under the Department of Housing and Community Development’s (DHCD) Neighborhood and Community Assistance Program from \$2 million to \$5 million per fiscal year. The bill authorizes DHCD to give preference to a neighborhood conservation district designated under the U.S. Department of Housing and Urban Development’s (HUD) Neighborhood Stabilization Program when considering approval or disapproval for a proposal and in determining the maximum sum of contributions eligible for the tax credit.

Fiscal Summary

State Effect: General fund revenues decrease by \$583,100 in FY 2014 due to additional credits being awarded and claimed. Transportation Trust Fund (TTF) revenues decrease by \$9,700 in FY 2014 due to credits being claimed against the corporate income tax. Higher Education Investment Fund (HEIF) revenues decrease by \$7,200 in FY 2014 due to credits claimed against the corporate income tax. Future years reflect the maximum amount of credits awarded in each year, the estimated amount of credit allowed in each year, and carry forwards from previous years. Expenditures are not affected.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	\$0	(\$583,100)	(\$1,145,900)	(\$1,432,400)	(\$1,432,400)
SF Revenue	\$0	(\$16,900)	(\$54,100)	(\$67,600)	(\$67,600)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$600,000)	(\$1,200,000)	(\$1,500,000)	(\$1,500,000)

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

Local Effect: Local highway user revenues decrease by \$900 in FY 2014 and by \$4,800 in FY 2017 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law/Background: The purposes of DHCD's Neighborhood and Community Assistance Program are to (1) help nonprofit organizations to carry out approved projects in priority funding areas; (2) encourage business entities to invest in priority funding areas; and (3) strengthen partnerships between public and private entities.

For each fiscal year, a nonprofit organization may submit to DHCD, for approval under the program, a proposal for a project to provide services to a priority funding area. The project may include community services, redevelopment assistance, job training for low-income individuals, education, and crime prevention. The proposal must include specified information, including the project to be conducted, the priority funding area that will benefit from the project, and the estimated project costs, among other things. A proposal must be approved by the local jurisdiction in which the priority funding area is located before DHCD may approve it.

In approving or disapproving a proposal and in determining the maximum amount of contributions eligible for tax credits, DHCD must consider any relevant factor, including the need for the project, the anticipated benefit to the priority funding area, the applicant's ability to successfully complete the project, and the geographic distribution of projects, among other things. DHCD may give preference to a proposal that benefits a sustainable community designated by DHCD's Business Development Program. DHCD may also request data and assistance from other units of the State in approving or disapproving a proposal and in determining eligible amounts.

Chapter 636 of 1996 established the Neighborhood and Community Assistance Tax Credit Program. A business or individual 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. An approval must be in writing and must state the maximum amount of contributions to the approved projects that are eligible for a tax credit.

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.

Background: According to HUD, the purpose of the Neighborhood Stabilization Program is to stabilize communities suffering from foreclosures and abandonment by the purchase and redevelopment of foreclosed and abandoned homes and residential properties. A specified portion of the funds received by the Neighborhood Stabilization Program grantees must be used for the purchase of abandoned or foreclosed residential properties used to house low-income individuals.

State/Local Revenues: The bill increases the maximum sum of contributions eligible for a tax credit offered under DHCD's Neighborhood and Community Assistance Program from \$2.0 million to \$5.0 million. As a result, in fiscal 2014, general fund revenues decrease by an estimated \$583,100, TTF revenues decrease by an estimated \$9,700, and HEIF revenues decrease by an estimated \$7,200. Beginning in fiscal 2016, general fund revenues decrease by an estimated \$1.4 million annually, TTF revenues decrease by an estimated \$49,600 annually, and HEIF revenues decrease by an estimated \$18,000 annually.

Due to the bill's October 1, 2012 effective date, it is assumed that any increase in the amount of tax credits claimed, will not occur until calendar 2013. Additionally, although the average contribution amounts approved by DHCD have fallen short of the current cap over the past five years, this estimate assumes that DHCD reaches the bill's contribution limit of \$5.0 million each year. To the extent that DHCD does not approve the total maximum contribution amount, the decrease in revenues would be less. Finally, the estimate assumes that 80% of the tax credits are claimed against the personal income tax and the remaining 20% against the corporate income tax, and that 40% of the tax credit is claimed in the current tax year, 40% is carried forward and claimed in the next tax year, and the remaining amount is carried forward in subsequent tax years.

Exhibit 1 shows the estimated impact on State and local revenues from fiscal 2013 through 2017.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2013-2017

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Total Revenues	\$0	(\$600,000)	(\$1,200,000)	(\$1,500,000)	(\$1,500,000)
General Fund	0	(583,100)	(1,145,900)	(1,432,400)	(1,432,400)
HEIF	0	(7,200)	(14,400)	(18,000)	(18,000)
TTF	0	(9,700)	(39,700)	(49,600)	(49,600)
MDOT	0	(8,800)	(35,900)	(44,800)	(44,800)
LHUR	0	(900)	(3,800)	(4,800)	(4,800)

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund
MDOT: Maryland Department of Transportation
LHUR: Local Highway User Revenues

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Housing and Community Development, Maryland Insurance Administration, Comptroller's Office, U.S. Department of Housing and Urban Development, Department of Legislative Services

Fiscal Note History: First Reader - February 29, 2012
ncs/lgc

Analysis by: Michael F. Bender

Direct Inquiries to:
(410) 946-5510
(301) 970-5510