

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE

House Bill 592

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

Ways and Means

Budget and Taxation

Tax Credit for Businesses That Create New Jobs - Enhanced Credit - Extension

This departmental bill extends, from 12 to 24 years, the duration of the enhanced tax credit for businesses that create new jobs. The bill specifies that it is the intent of the General Assembly that the extension of the duration of the tax credits under the bill must apply to any business entity or affiliate of a business entity that qualified for the tax credits before the bill’s effective date.

The bill takes effect July 1, 2012, and applies to all taxable years beginning after December 31, 2012.

Fiscal Summary

State Effect: State revenues will continue to decrease due to the extension of the tax credit. Current projections indicate that revenues will decrease by approximately \$1.1 million annually over the 12-year extension, beginning in FY 2016. State expenditures are not affected.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	(\$.8)	(\$.8)	(\$.8)	(\$.8)	(\$.8)
SF Revenue	(\$.2)	(\$.2)	(\$.2)	(\$.2)	(\$.2)
Expenditure	0	0	0	0	0
Net Effect	(\$1.0)	(\$1.1)	(\$1.1)	(\$1.1)	(\$1.1)

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

Local Effect: Montgomery County property tax revenues will continue to decrease due to the extension of the tax credit. Current projections indicate that revenues will decrease by approximately \$1.9 million beginning in FY 2016 and by \$29.6 million over the

12-year extension. Local highway user revenues will continue to decrease by \$16,600 in FY 2016 and by \$15,000 beginning in FY 2017.

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.

Analysis

Current Law: Businesses located in Maryland that create new positions and establish or expand business facilities in the State may be entitled to a tax credit. To be eligible for the tax credit, businesses must first have been granted a property tax credit by a local government of Maryland for creating the new jobs.

The credit may be taken against the corporate income tax, personal income tax, or insurance premiums tax. The credit may be applied to only one of these tax types in addition to the property tax.

In order to qualify for the tax credit a business must create at least 25 new positions as part of the new or expanded business facility in Maryland (5,000 square feet or more). Businesses located in smaller counties (population of 30,000 or less) must create at least 10 new positions.

In addition, an enhanced credit is available for businesses that create or expand a new business facility in Maryland of 250,000 square feet or more and employ 2,500 employees and create 500 new positions that pay at least 150% of the federal minimum wage or create 1,250 new positions that are paid at least 150% of the federal minimum wage.

In Montgomery County only, a business must spend at least \$150 million to obtain at least 700,000 square feet of new or expanded business premises (through the purchase, construction, or lease of a new premises) and employ at least 1,100 individuals including at least 500 new, permanent full-time positions. All of the positions must receive employer-provided subsidized health care benefits, be paid at least 150% of the federal minimum wage, and be located in or neighboring the new, expanded, or renovated premises.

The enhanced property tax credit is equal to 58.5% of a specified property assessment increase while the income tax credit is equal to 31.5% of State income, corporate income, financial institutions franchise, or insurance premiums tax in each of the first 12 tax years. If

the credit is more than the State tax liability, the unused credit may be carried forward for the next five taxable years.

Background: The enhanced tax credit became effective for fiscal 2000 to incentivize a headquarter expansion of Marriott International and was subsequently amended in 2002 (Chapter 538) to do the same for Discovery Communications in Silver Spring. Discovery Communications is the only business currently eligible for the enhanced tax credit in Montgomery County, as Marriott International has never met the qualifications for the enhanced tax credit.

State Fiscal Effect: As previously noted, the enhanced tax credit is currently provided to one business in Montgomery County. The tax credit was first issued in fiscal 2004, so it will expire at the end of fiscal 2015. The bill extends the duration of the tax credit an additional 12 years, so that State revenues will decrease through fiscal 2027. Tax credits claimed against the corporate income tax reduce general fund revenues as well as Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues. **Exhibit 1** shows the amount of income tax credits and county property tax credits granted for fiscal 2004 through 2011.

Based on current tax credit amounts it is estimated that total income tax revenues will decrease by approximately \$1.1 million annually beginning in fiscal 2016 for a total cost of approximately \$12.9 million over the 12-year extension of the tax credit. Income tax credits claimed against the corporate income tax reduce general fund revenues and TTF and HEIF revenues as well as local highway user revenues. Based on the estimated tax credits to be issued between fiscal 2016 and 2027, general fund revenues are expected to decrease by between \$800,000 and \$850,000 annually and special fund revenues are estimated to decrease by between \$200,000 and \$240,000 annually.

Local Fiscal Effect: The bill extends the duration of the tax credit an additional 12 years so that Montgomery County property tax revenues will continue to decrease from fiscal 2016 through 2027. Exhibit 1 shows the total amount of property tax credits (real and personal property) issued for fiscal 2004 through 2011.

Based on the amount of credits issued, and an estimated 4.4% annual growth rate, it is estimated that Montgomery County property tax revenues will decrease by an estimated \$1.9 million in fiscal 2016 and by \$3.1 million by fiscal 2027 for a total of \$29.6 million over the life of the tax credit.

In addition, local highway user revenues will decrease as a result of the reduction of corporate income tax revenues. As previously noted, credits claimed against the corporate income tax reduce local highway user revenues. As a result, local highway

user revenues will continue to decrease by \$16,600 in fiscal 2016 and by \$15,000 beginning in fiscal 2017.

Exhibit 1
Businesses that Create New Jobs – Tax Credits
Fiscal 2004-2011

<u>Fiscal Year</u>	<u>Income Tax Credits Issued</u>	<u>County Property Tax Credits Issued</u>
2004	\$716,682	\$1,253,383
2005	1,009,724	1,775,348
2006	1,070,994	1,748,922
2007	986,332	1,681,272
2008	1,069,810	1,732,223
2009	987,400	1,728,892
2010	1,000,498	1,747,724
2011	961,488	1,559,694
Total	\$7,802,928	\$13,227,458

Source: State Department of Assessments and Taxation; Montgomery County

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore, Charles, Frederick, and Montgomery counties; State Department of Assessments and Taxation; Department of Business and Economic Development; Maryland Insurance Administration; Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2012
ncs/hlb

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: New/Expanded Business Property Tax Credit (Montgomery County Only)

BILL NUMBER: HB 592

PREPARED BY: Department Business and Economic Development

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

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

Under the current Enhanced New Jobs Tax Credit, eligible businesses in Montgomery County may claim a tax credit against property and income tax. This proposal extends the property and income tax credits from 12 to 24 years.

The Enhanced New Jobs Tax Credit is designed to retain the jobs and capital investment in very large expansion projects. It is available to businesses that have at least 1,100 existing permanent, full-time positions and also create 500 new permanent, full-time positions. The businesses must pay all the existing and new employees at least 150% of the federal minimum wage and provide each employee a subsidized health care benefits package. The credit is only available if the businesses is engaged in a qualified industry and expends at least \$150 million to increase their space by at least 700,000 square feet.

The Enhanced Tax Credit is given against the local real and personal property tax and is based on the amount of additional taxes due as a result of the business expansion. . The Enhanced New Jobs Tax Credit is calculated at the same rate for all 12 years. The County tax credit rate is 58.5% of the additional local tax liability. In addition, the State gives a credit based on this additional local tax liability. The State credit is 31.5% for each of the 12 years and is given against the State corporate or personal income taxes, the financial

institutions franchise tax, or the insurance premium tax. The State income tax credit can be carried forward for up to five years.

Currently, only one business qualifies for the Enhanced New Jobs Tax Credit in Montgomery County.

The Enhanced New Jobs Tax Credit does not directly impact small businesses as it is only available to very large businesses such as a corporate headquarters. However, the impact of a major headquarters location can have significant impact on small businesses in the jurisdiction. Nearby restaurants and stores benefit from increased customers and sales. Having a major corporation in the community provides opportunities for small businesses to sell products and services. The impacts are evident in the renaissance and redevelopment that has occurred around Discovery Communications headquarters in Silver Spring. The number of small businesses in downtown Silver Spring increased 6% from 2001 to 2009 while the number of small businesses in Montgomery County increased only 2%.

Montgomery County Small Businesses 2001-2009			
	2001	2009	% change
Montgomery County			
Businesses <50 employees	24,506	24,989	2%
Retail businesses <50	2,909	2,568	-12%
Management Co's <50	183	383	109%
Silver Spring (zip 20910)			
Businesses <50 employees	1,639	1,737	6%
Retail businesses <50	178	168	-6%
Management Co's <50	6	19	217%
Source: Census, County Business Patterns			