HB 965

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

House Bill 965 (Delegates Barve and Branch)
Ways and Means Budget and Taxation

Income Tax Credit - General Services Administration Schedules Program - Preparation Expenses

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This bill creates a State income tax credit for up to 50% of the qualifying expenses incurred by a business in order to prepare specified U.S. General Services Administration (GSA) contract proposals and program applications. The maximum amount of the credit may not exceed the tax liability imposed in the year, and any unused credit amount may not be carried forward to any other tax year. The Department of Business and Economic Development (DBED) may approve a maximum of $100,000 in total credits each year. The Comptroller's Office must report specified information annually about the credit to the Governor and the General Assembly beginning December 1, 2013.

The bill takes effect July 1, 2012, and applies to tax years 2012 and beyond.

Fiscal Summary

State Effect: Total general fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues may decrease by up to $100,000 annually beginning in FY 2014 due to tax credits claimed against the personal and corporate income tax. Minimal increase in general fund expenditures for implementation costs at DBED beginning in FY 2013. General fund expenditures increase by $84,000 in FY 2014 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

Local Effect: Local highway user revenues will decrease minimally beginning in FY 2014 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill creates a State income tax credit equal to 50% of the qualifying expenses incurred in order to prepare GSA schedules program contract proposals and program applications. GSA schedules program under the bill includes contracts for supplies and services awarded (1) under the Federal Supply Schedule Program managed by GSA; and (2) by GSA or the Department of Veterans Affairs under the Multiple Award Schedule Program. The maximum amount of the credit may not exceed the tax liability imposed in the year, and any unused amount may not be carried forward to any other tax year.

Current Law: No State tax credit of this type exists. However, businesses may deduct contract and proposal expenses as ordinary and necessary business expenses for the federal income tax, which typically lowers federal, State, and local income tax liability.

Background: GSA's Federal Acquisition Service establishes long-term government-wide contracts with vendors to provide federal agencies access to over 10 million commercial supplies and services. GSA negotiates the contracts with the objective of achieving pricing discounts. The program allows agencies to place orders directly with vendors with the assurance that GSA has already determined the pricing.

In federal fiscal 2010, about 91,700 contracts with GSA specified as the spending agency were issued to Maryland companies. These contracts totaled slightly more than $1.0 billion and were issued to about 800 companies. About 83% of these contracts were issued to 2 companies and 95% of contracts were issued to 50 companies. While most of the contracts were issued for office supplies, most of the total dollar amount of contracts was for office building leasing/rental, construction, and maintenance.

State Revenues: Although tax credits may be claimed beginning in tax year 2012, DBED must certify the amount of eligible expenses incurred before the tax credit may be claimed. DBED certifies expenses on December 15 of the calendar year following the end of the taxable year in which the qualifying expenses occurred. A business must then file an amended return to claim the credit – it is assumed that the earliest this could be done is in fiscal 2014 and that companies do not adjust estimated payments. Accordingly, total general fund, TTF, and HEIF revenues may decrease by up to $100,000 annually beginning in fiscal 2014.

State Expenditures: DBED will incur additional costs to administer the credit, but these costs are assumed to be minimal. The Comptroller's Office reports that it will incur a one-time expenditure increase of $84,000 in fiscal 2014 to add the tax credit to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Local Revenues: Local highway user revenues will decrease minimally beginning in fiscal 2014 as a result of credits claimed against the corporate income tax.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History:	First Reader - March 1, 2012
ncs/jrb	Revised - House Third Reader - April 3, 2012

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