

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 1107
 Ways and Means

(Delegate Olszewski, *et al.*)

Budget and Taxation

Job Creation Tax Credit - Termination Provisions

This bill extends the termination date of the job creation tax credit from January 1, 2014, to January 1, 2020.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: General fund revenues decrease by \$318,000 in FY 2015 due to the extension of the credit. Transportation Trust Fund (TTF) revenues and Higher Education Investment Fund (HEIF) revenues decrease by \$57,000 in FY 2015. Future year revenues reflect annualization. No effect on expenditures.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	\$0	\$0	(\$318,000)	(\$636,000)	(\$646,000)
SF Revenue	\$0	\$0	(\$57,000)	(\$114,000)	(\$104,000)
Expenditure	0	0	0	0	0
Net Effect	\$0	\$0	(\$375,000)	(\$750,000)	(\$750,000)

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

Local Effect: Local highway user revenues distributed from the corporate income tax decrease minimally beginning in FY 2015. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The job creation tax credit provides a tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. The credit can be applied against the following taxes: corporate or personal income; insurance premium; and public service franchise. In any year, however, the credit may only be applied against one tax. The credit can be recaptured during any of the three taxable years following the claiming of the credit.

The program terminates January 1, 2014. Credits can be claimed only for qualified positions at a newly established or expanded facility that commences operations before January 1, 2013.

Businesses must be primarily engaged in a qualifying business activity. An eligible business must create 60 new jobs within a two-year period. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 150% of the federal minimum wage. The job creation threshold is lowered to (1) 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; or (2) 25 new jobs if the new jobs are created within a State priority funding area.

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 are located in a revitalization area.

- *Standard Credit:* The credit is equal to the lesser of \$1,000 or 2.5% of the wages paid associated with those jobs in the year the credit was claimed.
- *Enhanced Credit:* If the jobs were created in a revitalization area, the credit is equal to the lesser of \$1,500 or 5% of the wages paid associated with those jobs.

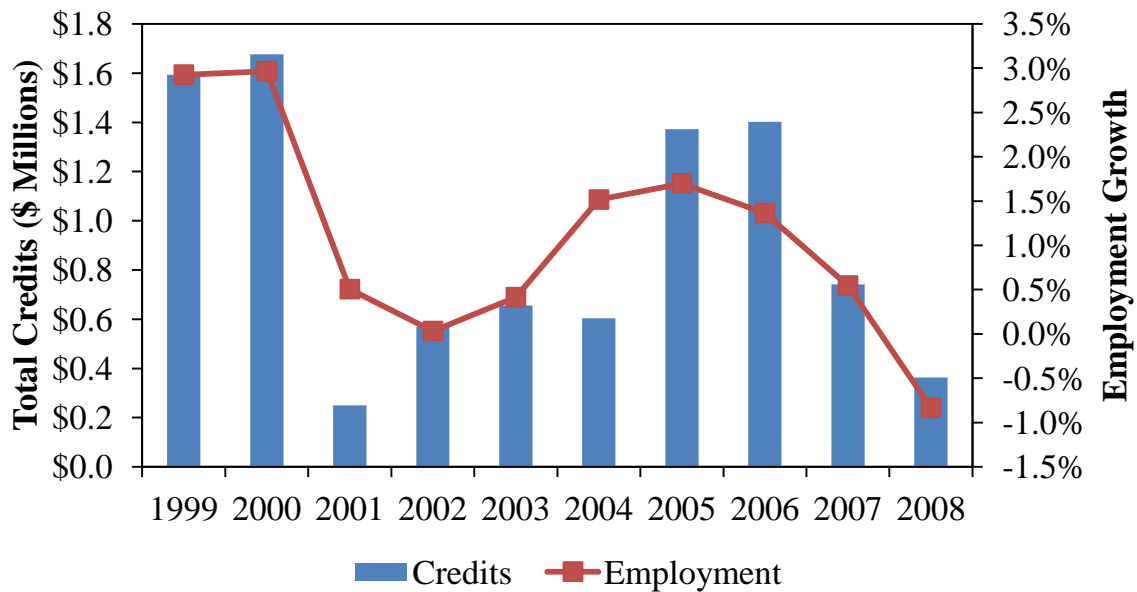
The credit is ratable for two years, with one-half of the tax credit amount allowable annually over two years beginning with the credit year. Any unused portion of the credit can be carried forward for up to five tax years.

The total credit claimed cannot exceed \$1 million for any one business.

Background: Chapter 84 of 1996 established the job creation tax credit. Businesses have claimed a total of \$12.6 million in tax credits; \$9.7 million of which have been claimed against the income tax, with the remaining amount claimed against the insurance premium tax. The amount of credits claimed has varied significantly over time, reflecting economic cycles and concomitant changes in the labor market conditions. Utilization of the credit is high in years in which the Maryland labor market expands;

however, significantly less credits are claimed in years with economic downturns and slow labor market growth. **Exhibit 1** shows the amount of credits claimed against the income tax in tax years 1999 through 2008, and the change in Maryland private employment over the same period.

Exhibit 1
Total Credits Claimed and Maryland Employment Growth
1999-2008



Note: Credits claimed under the personal income tax only.

Source: Comptroller's Office; Department of Legislative Services

State Revenues: The bill extends the termination date of the program to January 1, 2020. As a result, general fund revenues decrease by \$318,000 in fiscal 2015. **Exhibit 2** shows the impact of the bill in fiscal 2015 through 2017. This estimate is based on the existing amount of credits claimed under the income tax and insurance premium tax.

Exhibit 2
Fiscal Impact of Legislation
(\$ in Thousands)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
GF Revenues	(\$318)	(\$636)	(\$646)
HEIF Revenues	(15)	(30)	(30)
TTF Revenues	(42)	(84)	(74)
MDOT	(38)	(76)	(67)
Local	(4)	(8)	(7)
Total Revenues	(\$375)	(\$750)	(\$750)

GF: General Fund

HEIF: Higher Education Investment Fund

MDOT: Maryland Department of Transportation

TTF: Transportation Trust Fund

Local Revenues: Baltimore City, counties, and municipalities receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease minimally beginning in fiscal 2015, as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Cross File: SB 477 (Senator Klausmeier, *et al.*) - Budget and Taxation.

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

Fiscal Note History: First Reader - March 6, 2012
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