

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 108

(Delegate Lafferty)

Environmental Matters

Education, Health, and Environmental Affairs

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 \$3.5 million each fiscal year. The bill also authorizes DHCD to give preference to a neighborhood conservation district that is locally designated in coordination with the program when considering approval or disapproval of a proposal for a project under the program and in determining the maximum sum of contributions eligible for the tax credit.

Fiscal Summary

State Effect: General fund revenues decrease by \$286,500 in FY 2015 due to additional credits being awarded and claimed. Transportation Trust Fund (TTF) revenues decrease by \$9,900 and Higher Education Investment Fund (HEIF) revenues decrease by \$3,600 in FY 2015. Future year revenue decreases reflect the maximum amount of credits awarded each year, the estimated amount of the credit allowed in each year, and the carry forward of credits from previous years. Expenditures are not affected.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	\$0	(\$286,500)	(\$572,900)	(\$719,100)	(\$719,100)
SF Revenue	\$0	(\$13,500)	(\$27,100)	(\$30,900)	(\$30,900)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$300,000)	(\$600,000)	(\$750,000)	(\$750,000)

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

Local Effect: Local highway user revenues decrease by \$1,000 in FY 2015 and by \$2,100 in FY 2018. 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 considering 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 (HB 820) established the Neighborhood and Community Assistance Tax Credit. A business or individual can claim a tax credit 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 for 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 (SB 1076) 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. The combined effect of the tax benefits may reduce federal and State tax liabilities in an amount equal to the amount of the donation. 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 \$98,350 in the tax year.

State 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 \$3.5 million in each fiscal year. As a result, general fund revenues will decrease by \$286,500 in fiscal 2015. TTF revenues will decrease by \$9,900 and HEIF revenues will decrease by \$3,600 in fiscal 2015.

This estimate is based on the history of the existing tax credit and the following facts and assumptions:

- due to the bill's October 1, 2013 effective date, it is assumed that tax credits are not earned until calendar 2014;
- DHCD awards the maximum amount of credits in each fiscal year;
- 80% of credits are claimed against the personal income tax and the remaining 20% against the corporate income tax; and
- 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 2014 through 2018.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2014-2018

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
General Fund	\$0	(\$286,500)	(\$572,900)	(\$719,100)	(\$719,100)
HEIF	0	(3,600)	(7,200)	(9,000)	(9,000)
TTF	0	(9,900)	(19,900)	(21,900)	(21,900)
<i>MDOT</i>	0	(8,900)	(18,000)	(19,800)	(19,800)
<i>LHUR</i>	0	(1,000)	(1,900)	(2,100)	(2,100)
Total Revenues	\$0	(\$300,000)	(\$600,000)	(\$750,000)	(\$750,000)

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

Local Revenues: Local highway user revenues will decrease as a result of credits claimed against the corporate income tax. Local highway user revenues will decrease by \$1,000 in fiscal 2015 and by \$2,100 in fiscal 2018, as shown in Exhibit 1.

Additional Information

Prior Introductions: HB 731 of 2012, a similar bill, received a favorable with amendments report from the House Environmental Matters Committee but was subsequently recommitted to the committee.

Cross File: None.

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

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Analysis by: Robert J. Rehrmann

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