Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 729 (Delegate Vogt, *et al.*)
Ways and Means

Taxation - Prohibition on Exemptions and Credits for Organizations Having Known Ties to Terrorism (Homegrown Terrorism Prevention Act)

This bill prohibits a nonprofit organization from claiming specified State or local tax exemptions and credits if the organization is determined to have "known ties to terrorism." The bill establishes the process for making this determination and requires that the Comptroller and State Department of Assessments and Taxation (SDAT) adopt regulations to implement the bill.

The bill takes effect June 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund expenditures may increase beginning in FY 2017 due to implementation costs at the Comptroller's Office and SDAT. The bill is not expected to impact State revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill prohibits a nonprofit organization exempt from taxation under Section 501(C) (3) of the Internal Revenue Code (IRC) from claiming an exemption or credit against a State or local tax under the Tax-General Article if the Comptroller determines the organization has "known ties to terrorism." The Comptroller is required to

(1) consult with the U.S. Department of Homeland Security in making this determination and (2) adopt regulations implementing this requirement.

The bill also prohibits designated organizations from claiming a credit or exemption under the Tax-Property Article if SDAT and the Comptroller make the same determination in consultation with the U.S. Department of Homeland Security. The Comptroller and SDAT are required to jointly adopt regulations implementing this requirement.

Current Law/Background: Federal law provides that if an exempt organization is designated as a terrorist organization as described in the IRC, (1) its tax-exempt status is suspended and (2) contributions to the organization are not deductible for federal tax purposes. In addition, any organization designated as a terrorist organization cannot apply for tax-exempt status if it has not yet been granted tax-exempt status.

Section 501(p)(2) of the IRC specifies that an organization is designated as a terrorist organization if the organization is designated or individually identified pursuant to (1) specified sections of the Immigration and Nationality Act; (2) an executive order related to terrorism and issued under the authority of the International Emergency Economic Powers Act or Section 5 or the United Nations Participation Act of 1945; or (3) an executive order issued under any federal law if the organization is identified as supporting or engaging in terrorist activity or supporting terrorism as defined in the Immigration and Nationality Act and Foreign Relations Authorization Act, Fiscal Years 1988 and 1989, respectively. Designations are typically made pursuant to economic sanctions or U.S. Department of State programs. The Office of Foreign Assets Control of the U.S. Department of the Treasury administers economic sanctions and maintains a list of persons subject to any economic sanctions programs that it administers.

State Fiscal Effect: General fund expenditures may increase beginning in fiscal 2017 due to implementation costs at the Comptroller's Office and SDAT. The Comptroller's Office advises that the bill would have a fiscal impact to the extent the U.S. Department of Homeland Security shares any relevant information.

Given existing federal income tax provisions, the bill is not expected to impact State revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Internal Revenue Service, Department of Legislative Services

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min/jrb

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