

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 690

(Delegate Hixson, *et al.*)

Ways and Means

Housing and Community Development - Neighborhood and Community Assistance Program Tax Credit - Maximum Contributions

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 \$3.5 million to \$6.0 million each fiscal year.

Fiscal Summary

State Effect: General fund revenues decrease by \$479,400 in FY 2019 due to additional credits being awarded and claimed. Transportation Trust Fund (TTF) revenues decrease by \$14,600 and Higher Education Investment Fund (HEIF) revenues decrease by \$6,000 in FY 2019. 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 carryforward of credits from previous years. DHCD and the Comptroller's Office can implement the bill with existing budgeted resources.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	\$0	(\$479,400)	(\$958,800)	(\$1,198,500)	(\$1,198,500)
SF Revenue	\$0	(\$20,600)	(\$41,200)	(\$51,500)	(\$51,500)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$500,000)	(\$1,000,000)	(\$1,250,000)	(\$1,250,000)

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

Local Effect: Local highway user revenues decrease by \$1,400 in FY 2019 and by \$3,500 in FY 2022 due to tax credits being claimed against the corporate income tax. 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 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. However, if a local jurisdiction does not respond within 45 days of receiving notice of the proposal, DHCD may approve the proposal.

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 or a neighborhood conservation district designated under the 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 established the Neighborhood and Community Assistance Tax Credit. A business or individual can claim a tax credit for 50% of 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 or individual intends to contribute and certification of the value of any nonmonetary contribution.

Chapter 447 of 2006 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 for a single business or individual from \$125,000 to \$250,000. Chapter 82 of 2013 increased the maximum sum of contributions eligible for a tax credit from \$2.0 million to \$3.5 million each fiscal year.

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.

The Comptroller's Office does not have data on usage of the tax credit since the cap on total contributions was raised from \$2.0 million to \$3.5 million by Chapter 82. Based on available data from fiscal 2013, it appears that the tax credit was fully subscribed at the \$2.0 million level, so this analysis assumes that the credit will continue to be fully subscribed following the increase instituted by the bill.

Priority Funding Areas

Chapter 759 of 1997 established that State spending on certain growth-related activities must be directed to priority funding areas. Growth-related projects include most State programs that encourage or support growth and development such as highways, sewer and water construction, economic development assistance, and State leases or construction of new office facilities. Priority funding areas include all municipalities that existed in the State in 1997; areas inside the Washington Beltway and the Baltimore Beltway; and areas designated as enterprise zones, neighborhood revitalization areas, heritage areas, and certain industrial areas. Areas that were annexed by a municipality after 1997 may also be designated priority funding areas, as long as the areas satisfy specified requirements in statute generally related to density, water and sewer access, and other related factors.

State Revenues: The bill increases the maximum sum of contributions eligible for a tax credit offered under the Neighborhood and Community Assistance Program from \$3.5 million to \$6.0 million in each fiscal year. As only 50% of the sum of contributions can be claimed as a tax credit, the bill raises the maximum allowable annual tax credits by \$1.25 million (*i.e.*, 50% of the \$2.5 million increase in the contribution limit). As a result, general fund revenues decrease by \$479,400, TTF revenues decrease by \$14,600, and HEIF revenues decrease by \$6,000 in fiscal 2019. This estimate is based on the history of the existing tax credit and the following assumptions:

- due to the bill's October 1, 2017 effective date, it is assumed that tax credits are not earned until calendar 2018;
- 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 to subsequent tax years.

Exhibit 1 shows the estimated impact on State and local revenues from fiscal 2018 through 2022.

Exhibit 1
State and Local Revenue Effects
Fiscal 2018-2022

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
General Fund	\$0	(\$479,400)	(\$958,800)	(\$1,198,500)	(\$1,198,500)
HEIF	0	(6,000)	(12,000)	(15,000)	(15,000)
TTF	0	(14,600)	(29,200)	(36,500)	(36,500)
MDOT	0	(13,200)	(26,400)	(33,000)	(33,000)
LHUR	0	(1,400)	(2,800)	(3,500)	(3,500)
Total Revenues	\$0	(\$500,000)	(\$1,000,000)	(\$1,250,000)	(\$1,250,000)

HEIF: Higher Education Investment Fund

LHUR: Local Highway User Revenues

MDOT: Maryland Department of Transportation

TTF: Transportation Trust Fund

Note: Totals may not sum due to rounding.

Source: Comptroller's Office; Department of Legislative Services

Local Revenues: Local highway user revenues decrease as a result of credits claimed against the corporate income tax. Local highway user revenues decrease by \$1,400 in fiscal 2019 and by \$3,500 by fiscal 2022, as shown in Exhibit 1.

Additional Information

Prior Introductions: HB 843 of 2015 received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, SB 494, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Baltimore, Carroll, Harford, Montgomery, and Queen Anne's counties; cities of Salisbury and Westminster; Town of Leonardtown; Comptroller's Office; Department of Housing and Community Development; Department of Legislative Services

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