Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1142 (Senator King, *et al.*)
Budget and Taxation

Income Tax - Corporate Headquarters Investment and Job Retention Tax Credit

This bill creates a tax credit against the State income tax for a business that has its corporate headquarters in the State and is certified as being eligible by the Department of Commerce (Commerce). Commerce may certify that a project, which includes ancillary facilities and a hotel, is an eligible project if the business provides evidence of an intent to maintain at least 3,500 qualified positions (250 of which may be part-time positions) based at or assigned to the project and expend at least $500 million in qualifying expenditures during a 10-year period. A qualified business may claim up to $5.5 million in tax credits annually over four years, for a total of $22 million, and a qualified business may not receive more than one designation for an eligible project.

The bill takes effect July 1, 2017, and applies to tax year 2017 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $4.4 million annually in FY 2018 through 2021. Transportation Trust Fund (TTF) revenues decrease by $802,700 annually and Higher Education Investment Fund (HEIF) revenues decrease by $330,000 annually in FY 2018 through 2021. General fund expenditures increase by $32,000 in FY 2018 due to implementation costs at the Comptroller's Office.

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	($4.4)	($4.4)	($4.4)	($4.4)	$0
SF Revenue	($1.1)	($1.1)	($1.1)	($1.1)	$0
GF Expenditure	$0.0	$0	$0	$0	$0
Net Effect	($5.5)	($5.5)	($5.5)	($5.5)	$0.0

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

Local Effect: Local highway user revenues distributed from the corporate income tax decrease by $77,100 annually in FY 2018 through 2021. Local expenditures are not affected.

Small Business Effect: None. The anticipated beneficiary of the proposed tax credit, Marriott International, Inc., is not a small business.

Analysis

Bill Summary: A qualified position is a filled position that requires at least 1,800 hours of work in a 12-month period, is based at or assigned to the qualified business's corporate headquarters, an ancillary facility, or a satellite office in the State, and is paid at least 150% of the prevailing federal minimum wage. Qualified expenditures include the value of land or personal property, hard or soft costs related to construction or purchasing land or personal property, and expenditures made by a developer for a facility to be leased or operated by the qualified business entity.

A business must apply to Commerce by January 1, 2018, and the application must include information with respect to the project on (1) the number of qualified positions to be based at or assigned to the project; (2) a budget for the project that includes the amount of qualified expenditures that the applicant pledges to expend; and (3) any other information Commerce requires. Commerce must certify a business as a qualified business entity within 60 days of receiving an application. If, before an applicant files an application, Commerce enters into an agreement or understanding with the applicant under specified economic development programs, Commerce must interpret and apply the provisions of the bill in a manner consistent with the agreement or understanding.

The bill specifies credit recapture provisions if the qualifying business does not maintain specified numbers of qualified positions over a 10-year time period. If the qualified business does not expend at least $500 million in qualified expenditures by the end of the tenth year following the first year a credit is claimed, the full amount of the credits claimed must be recaptured as taxes payable to the State for that taxable year.

Current Law/Background: Businesses can generally deduct capital expenditures and employment costs, which typically lower federal and State income tax liabilities. In addition, businesses may qualify for employment and investment tax credits such as the job creation, One Maryland, businesses that create new jobs, and enterprise zone tax credits.

The Governor's proposed fiscal 2018 budget includes a fiscal 2017 general fund deficiency appropriation of $20 million under the Economic Development Opportunities Program

Fund (Sunny Day Fund). The purpose of the deficiency appropriation is to provide a retention incentive to Marriott International, Inc., for its headquarters facility in Montgomery County. The company would be required to retain at least 3,250 full-time employees in the county and invest at least $500 million in facility purchase and construction costs. Funds would be allocated in equal installments over four years. Before any funds are allocated, the deficiency appropriation must be approved by the Legislative Policy Committee.

State Revenues: Commerce advises that it expects one business entity, Marriott International, Inc., to apply for the tax credit. Assuming Commerce awards a $22.0 million credit to be claimed in tax years 2017 through 2020, general fund revenues decrease by $4.4 million annually in fiscal 2018 through 2021. Over the same period, TTF revenues decrease by $802,700 annually and HEIF revenues decrease by $330,000 annually.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $32,000 in fiscal 2018 to add the 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 governments 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 by $77,100 annually in fiscal 2018 through 2021.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce; Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - March 13, 2017
mm/jrb

Analysis by: Heather N. Ruby

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