HB 750

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 750 (Delegate Tarlau, *et al.*)
Ways and Means

Economic Development Income Tax Credits - Multiple Claims - Prohibition

This bill prohibits a business from claiming, with respect to the same project or job, more than one of the income tax credits provided under the following programs (1) enterprise zone; (2) Regional Institution Strategic Enterprise (RISE) zone; (3) job creation; (4) One Maryland; (5) Aerospace, Electronics or Defense Contract (AEDC); (6) More Jobs for Marylanders; and (7) film production activity. **The bill takes effect July 1, 2018, and applies to tax years 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues may increase by $3.4 million annually beginning in FY 2019 as a result of a reduction in tax credits being claimed against the corporate and personal income tax. Transportation Trust Fund revenues increase by $0.5 million annually and Higher Education Investment Fund revenues increase by $0.2 million annually beginning in FY 2019. Expenditures are not affected.

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	$3.4	$3.4	$3.4	$3.4	$3.4
SF Revenue	$0.8	$0.8	$0.8	$0.8	$0.8
Expenditure	0	0	0	0	0
Net Effect	$4.2	$4.2	$4.2	$4.2	$4.2

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

Local Effect: Local highway user revenues may increase by $53,000 annually beginning in FY 2019 as a result of a reduction in credits claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: A business may claim an income tax credit if it meets specified program requirements. There is no prohibition on a business claiming more than one tax credit for the same job or project.

Background:

Job Creation

Created by Chapter 84 of 1996, 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. Businesses must be primarily engaged in a qualifying business activity. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 120% of the State minimum wage. The Department of Commerce (Commerce) certifies the number of qualifying jobs created by the business and can award a maximum of $4.0 million in credits each year.

Enterprise Zone

The Enterprise Zone Tax Credit Program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. The Secretary of Commerce may only designate an area as an enterprise zone if it is in a priority funding area and satisfies at least one criterion related to economic distress. Businesses located within a Maryland enterprise zone are eligible for local property tax credits and State income tax credits. Real property tax credits are 10-year credits against local real property taxes on a portion of the qualifying real property improvements in the enterprise zone. The income tax credit is based on wages paid to newly hired employees and can be taken over a one- to three-year period. The credits are based on the wages paid during the taxable year to each qualified employee and vary in value and length of time depending on whether the employee is certified from the Department of Labor, Licensing, and Regulation as being economically disadvantaged and if the business is located in a focus area.

The State reimburses local governments for one-half of the cost of the enterprise zone property tax credit. From fiscal 2001 to 2014, State reimbursements to local governments totaled $131.2 million. In fiscal 2014, about 850 properties earned a total of $27.8 million in property tax credits, of which the State reimbursed $13.9 million. Since tax year 2000, an annual average of $900,000 in enterprise zone income tax credits have been claimed.

Regional Institution Strategic Enterprise Zone

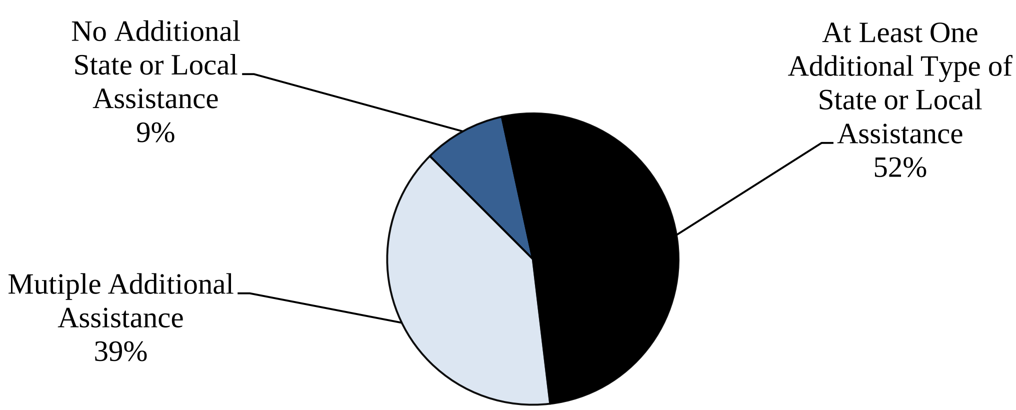
Chapter 530 of 2014 established the RISE zone program, which is administered by Commerce. RISE zones must be located in the immediate proximity of a private or public four-year institution or community college. A business may be eligible for (1) a property tax credit for local real and personal property taxes imposed on qualified property; (2) an income tax credit for the qualified employees hired by the business; and (3) priority consideration for assistance from Commerce financial assistance programs. For the purposes of the income tax credit, the business is considered to be located within an enterprise zone.

One Maryland

The One Maryland economic development tax credit was established to assist businesses with the costs of economic development projects undertaken in a qualified distressed county (QDC) and specifically to encourage capital investment and job creation in those counties. A business in a qualifying industry that establishes or expands a business facility in a priority funding area and is located in a QDC may be entitled to an income tax credit of up to $5.5 million.

In its evaluation of the One Maryland tax credit issued in August 2014, the Department of Legislative Services (DLS) noted that there was significant overlap between existing State tax credit and business assistance programs. DLS estimated that only 3, or 9%, of the 33 One Maryland projects in Baltimore City did not receive additional State or local assistance. A little more than one-half of all projects received at least one type of additional assistance, while the remaining 39% received multiple types of additional assistance, as shown in **Exhibit 1.**

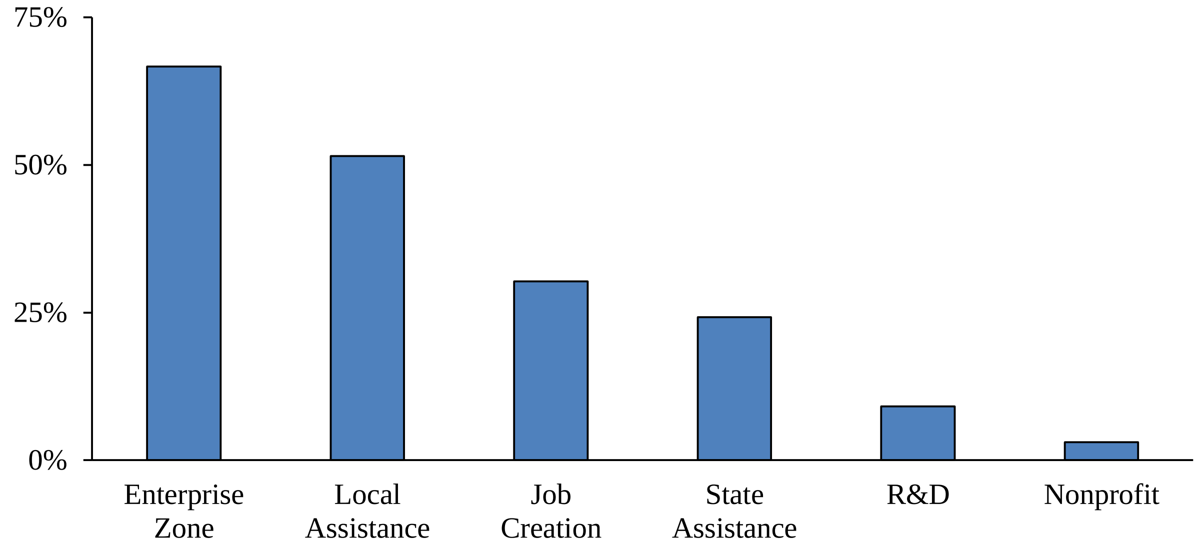
Exhibit 1
Percentage of One Maryland Projects
Receiving Additional Financial Assistance



Source: Baltimore Development Corporation; Department of Business and Economic Development; Maryland Economic Development Corporation; State Department of Assessments and Taxation; Department of Legislative Services

Exhibit 2 shows the percentage of Baltimore City projects that also received enterprise zone, job creation, and research and development tax credits; State or local assistance; or nonprofit grants.

Exhibit 2
Percentage of One Maryland Projects
Receiving Additional Financial Assistance
By Type of Assistance



R&D: Research and Development

Source: Baltimore Development Corporation; Department of Business and Economic Development; Maryland Economic Development Corporation; State Department of Assessments and Taxation; Department of Legislative Services

In fiscal 2000 through 2014, Commerce awarded One Maryland credits to 58 projects that reported 3,405 qualified jobs. For 1,386 of these jobs (40%), the business also claimed the job creation tax credit. The DLS report *Evaluation of the One Maryland Tax Credit* can be found here.

Aerospace, Electronics, or Defense Contract

Chapter 320 of 2016 established a tax credit against the State income tax for a business that is certified by Commerce as operating a qualifying AEDC tax credit project. Commerce may award a maximum of $7.5 million in tax credits in each year to a business that is certified as meeting the requirements of the program.

More Jobs for Marylanders

Chapter 149 of 2017 established the More Jobs for Marylanders Program. A new manufacturing business that locates within certain counties may be entitled to a 10-year (1) income tax credit based on the number of jobs created at a qualifying facility; (2) State property tax credit equal to 100% of the tax imposed on the facility's real property; (3) sales and use tax refund for specified purchases; and (4) exemption from paying corporate filing fees. Existing manufacturing businesses may qualify for the 10-year income tax credit. In addition, the program allows manufacturing businesses throughout the State to claim increased expensing amounts under the State income tax by conforming State law to the maximum aggregate costs of expensing allowed under Section 179 of the Internal Revenue Code (IRC) and to claim any bonus depreciation amounts provided under Section 168(k) of IRC. The Governor's proposed fiscal 2019 budget includes $10.0 million in funding for the income and sales and use tax exemptions.

Film Production Activity

A qualified film production entity that meets specified requirements and is approved by Commerce may receive a tax credit equal to 25% of qualified film production costs incurred in the State. For a television series, the value of the credit is increased to 27%. If the amount of the tax credit exceeds the total tax liability in the tax year, the entity can claim a refund in the amount of the excess. In order to qualify for the tax credit, the estimated total direct costs incurred in the State must exceed $500,000. Beginning in fiscal 2017, the total amount of initial credit certificates issued by Commerce in each fiscal year cannot exceed the amount appropriated to the film production activity reserve fund in the State budget. Any amount of money in the fund that is not expended in the fiscal year remains in the fund and is rolled over into the next fiscal year. The Governor's proposed fiscal 2019 budget includes $5.0 million in funding for the program.

State Revenues: Beginning in tax year 2018, the bill prohibits a business from claiming more than one specified State income tax credit with respect to the same job or project. It is estimated that businesses will be awarded approximately $41 million in income tax credits under the programs specified by the bill. Based on the estimated overlap between programs and assumption that a business will prioritize which tax credit to claim based on its value, State revenues may increase by $4.2 million annually beginning in fiscal 2019.

Exhibit 3 shows the estimated State and local revenue impacts resulting from the bill.

Exhibit 3
Projected Impact on State and Local Revenues
Fiscal 2019-2023

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Fund	$3,401,500	$3,401,500	$3,401,500	$3,401,500	$3,401,500
HEIF	225,000	225,000	225,000	225,000	225,000
TTF	548,000	548,000	548,000	548,000	548,000
State	*495,000*	*495,000*	*495,000*	*495,000*	*495,000*
Local	*53,000*	*53,000*	*53,000*	*53,000*	*53,000*
Total	**$4,174,500**	**$4,174,500**	**$4,174,500**	**$4,174,500**	**$4,174,500**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

Local Revenues: Local highway user revenues will increase by about $53,000 annually beginning in fiscal 2019 as a result of a reduction in tax credits claimed against the corporate income tax, as shown in Exhibit 3.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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