

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 970 (Senator Manno, *et al.*)
 Budget and Taxation

Income Tax Credit - Endow Maryland - Credit Amounts

This bill expands the existing Endow Maryland tax credit by increasing from \$250,000 to \$1 million the aggregate amount of credits that the Department of Housing and Community Development (DHCD) can approve in each tax year. **The bill takes effect July 1, 2018, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$680,500 annually beginning in FY 2020 as a result of additional tax credits being claimed against the corporate and personal income tax. Transportation Trust Fund (TTF) revenues decrease by \$20,100 annually and Higher Education Investment Fund (HEIF) revenues decrease by \$8,300 annually beginning in FY 2020. Expenditures are not affected.

| (in dollars) | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|--------------|---------|-------------|-------------|-------------|-------------|
| GF Revenue | \$0 | (\$680,500) | (\$680,500) | (\$680,500) | (\$680,500) |
| SF Revenue | \$0 | (\$28,400) | (\$28,400) | (\$28,400) | (\$28,400) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$0 | (\$708,900) | (\$708,900) | (\$708,900) | (\$708,900) |

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

Local Effect: Local highway user revenues decrease by \$1,900 annually beginning in FY 2020 as a result of credits claimed against the corporate income tax. Local income tax revenues increase by about \$18,600 annually beginning in FY 2020 due to the requirement that taxpayers add back any amount of credit claimed. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law/Background: Chapter 511 of 2014 created a tax credit against the State income tax for donations made by individuals or businesses to a qualified permanent endowment fund at an eligible community foundation. The value of the credit is equal to the lesser of 25% of the eligible donation or \$50,000. DHCD is required to administer the credit and may award a maximum of \$250,000 in credits in each tax year.

A taxpayer claiming the credit is required to add back the amount of the credit claimed to Maryland adjusted gross income or Maryland modified income under certain circumstances. Any unused amount of the credit may be carried forward for five taxable years. Taxpayers seeking the tax credit must apply to DHCD for the qualified donations planned in the tax year; applications are approved on a first-come, first-served basis until the total cap for the tax year is reached. DHCD is required to reserve at least 10% of all credits for donations of \$30,000 or less.

An eligible community foundation is an organization that (1) is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code; (2) is commonly known as a community trust, fund, endowment, or foundation that conveys the concept of a capital or endowment fund to support charitable activities in the community or area that it serves; (3) satisfies the public support test under Section 170(b)(1)(a)(vi) of the Internal Revenue Code; and (4) is in compliance with national standards established through the Council on Foundations.

State Revenues: The bill expands the Endow Maryland tax credit by increasing the aggregate amount of credits that can be approved in each calendar year beginning with tax year 2019. As a result, general fund revenues will decrease by \$680,500 in fiscal 2020. TTF revenues will decrease by \$20,100 and HEIF revenues will decrease by \$8,300 in fiscal 2020. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the proposed expansion.

Exhibit 1
Projected Impact on State and Local Revenues
Fiscal 2019-2023

| | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total State Revenue | \$0 | (\$708,900) | (\$708,900) | (\$708,900) | (\$708,900) |
| General Fund | 0 | (680,500) | (680,500) | (680,500) | (680,500) |
| HEIF | 0 | (8,300) | (8,300) | (8,300) | (8,300) |
| TTF | 0 | (20,100) | (20,100) | (20,100) | (20,100) |
| <i>State</i> | <i>0</i> | <i>(18,200)</i> | <i>(18,200)</i> | <i>(18,200)</i> | <i>(18,200)</i> |
| <i>Local</i> | <i>0</i> | <i>(1,900)</i> | <i>(1,900)</i> | <i>(1,900)</i> | <i>(1,900)</i> |
| Local Income Tax Revenues | \$0 | \$18,600 | \$18,600 | \$18,600 | \$18,600 |

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

Local Revenues: Local highway user revenues will decrease by about \$1,900 annually beginning in fiscal 2020 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1. Local income tax revenues will increase by about \$18,600 annually beginning in fiscal 2020 due to the bill's add-back requirement.

Additional Information

Prior Introductions: As amended by the Senate Budget and Taxation Committee, SB 641 of 2017 proposed to expand the maximum amount of credits to \$500,000. SB 641 passed the Senate and was referred to the House Rules and Executive Nominations Committee, but no further action was taken. Its cross file, HB 1119, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 1268 (Delegate Hixson, *et al.*) - Ways and Means.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2018
md/hlb

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