Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 572   (Delegate Rey, *et al.*)

Ways and Means   Budget and Taxation

Income Tax – Oyster Shell Recycling Credit – Maximum Allowable Amount and Sunset Extension

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This bill increases the maximum amount of the oyster shell recycling income tax credit that an individual or corporation may claim from $750 per tax return to $1,500 per tax return and extends the termination date of the credit to June 30, 2021. **The bill takes effect June 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by less than $46,900 annually in FY 2019 through 2021. Transportation Trust Fund (TTF) revenues decrease by less than $2,200 annually and Higher Education Investment Fund (HEIF) revenues decrease by less than $900 annually in FY 2019 through 2021. The Comptroller's Office can implement the bill with existing resources.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	($46,900)	($46,900)	($46,900)	$0	$0
SF Revenue	($3,100)	($3,100)	($3,100)	$0	$0
Expenditure	0	0	0	0	0
Net Effect	($50,000)	($50,000)	($50,000)	$0	$0

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

Local Effect: Local highway user revenues decrease by less than $200 annually in FY 2019 through 2021. Expenditures are not affected.

**Small Business Effect:** Minimal.

Analysis

Current Law: There is a nonrefundable tax credit against the State income tax equal to $5 for each bushel of oyster shells recycled during the taxable year, not to exceed $750 per tax return. The oyster shell recycling tax credit may not be carried over to any other tax year. An individual or corporation claiming the credit must be able to verify the costs incurred. The credit terminates on June 30, 2018.

Background: Recycled oyster shells are used as setting material for new spat (baby oysters) to be planted back into the Chesapeake and Coastal bays. Each recycled shell can become home to 10 new oysters as new oysters prefer to attach and grow onto other oyster shells. A healthy oyster reef filters the Chesapeake Bay's waters and provides habitat for an underwater community that furnishes life support for blue crabs and fish. Maryland harvested 384,000 bushels of oysters during the 2015 to 2016 oyster season.

The Oyster Recovery Partnership (ORP) is a cooperative coalition of partners that contribute to a large-scale restoration program that plants disease-free oysters back into the Chesapeake Bay. ORP developed the Shell Recycling Alliance (SRA) in 2010 to collect oyster shells from hundreds of restaurants, caterers, and seafood wholesalers throughout Maryland, Virginia, the District of Columbia, and Delaware. SRA also collects used shells from public drop sites in 11 counties. **Exhibit 1** shows the number of bushels of recycled oyster shells that SRA has collected from 2010 through 2017.

Exhibit 1
Bushels of Recycled Shells by Shell Recycling Alliance
2010-2017
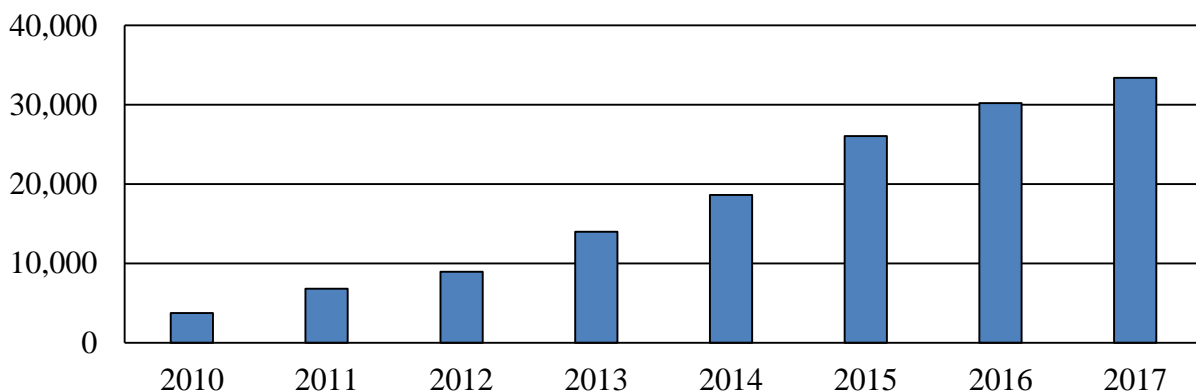
Source: Department of Natural Resources; Department of Legislative Services

State Revenues: General fund, TTF, and HEIF revenues decrease as a result of extending the termination date of the credit and from increasing the maximum credit that a taxpayer may claim. Six taxpayers claimed the maximum credit in tax year 2015, so increasing the maximum credit per taxpayer to $1,500 decreases revenue by a minimal amount to the extent that individuals and businesses in the State opt to recycle more than 150 bushels of oyster shells and have a tax liability exceeding $750.

The number of oyster shells being recycled by SRA has grown significantly, and the Comptroller's Office advises that there has also been growth in the oyster shell recycling tax credit program. While tax credits claimed in tax year 2015 did not exceed $10,000, the Department of Legislative Services (DLS) expects the program to grow. However, DLS assumes less than $50,000 of credits will be claimed annually under the bill as a result of extending the termination date and increasing the maximum credit. Thus, general fund revenues decrease by less than $46,911 in fiscal 2019. TTF revenues decrease by less than $2,189 in fiscal 2019, and HEIF revenues decrease by less than $900. **Exhibit 2** shows the estimated State and local revenue impacts of the bill through fiscal 2021.

Exhibit 2
State and Local Revenue Impacts
Fiscal 2019-2021

	FY 2019	**FY 2020**	**FY 2021**
General Fund	($46,911)	($46,911)	($46,911)
HEIF	(900)	(900)	(900)
TTF	(2,189)	(2,189)	(2,189)
State	*(1,979)*	*(1,979)*	*(1,979)*
Local	*(210)*	*(210)*	*(210)*
Total	**($50,000)**	**($50,000)**	**($50,000)**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

It is assumed that individuals and businesses have enough tax liability to claim the full credit. This estimate also assumes that 70% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

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. To the extent that the oyster shell recycling income tax credit is claimed by corporations, local highway user revenues decrease by less than $210 in fiscal 2019 through 2021.

Additional Information

Prior Introductions: None.

Cross File: Although SB 153 (Senator Hershey, *et al.* –Budget and Taxation) is designated as a cross file, it is not identical.

Information Source(s): Comptroller's Office; Department of Natural Resources; Oyster Recovery Partnership; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2018
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Analysis by: Heather N. Ruby   Direct Inquiries to:
                                                         (410) 946-5510
                                                         (301) 970-5510