

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 819 (St. Mary's County Delegation)
 Ways and Means

St. Mary's County - County Income Tax - Credit for Employees of Targeted Businesses

This bill authorizes St. Mary’s County to grant, by law, a local income tax credit for an individual who is an employee of a targeted business entity. A targeted business entity is a new or expanding for-profit, privately held company in St. Mary’s County that operates in an industry that is targeted for expansion by the County’s Strategic Plan for an Innovation-Driven Economy. The amount of the credit may not exceed \$1,000 for each employee and may not be claimed for more than seven consecutive tax years. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund expenditures increase by \$55,000 in FY 2020 due to one-time computer programming expenses at the Comptroller’s Office. Revenues are not affected.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	55,000	0	0	0	0
Net Effect	(\$55,000)	\$0	\$0	\$0	\$0

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

Local Effect: St. Mary’s County income tax revenues decrease to the extent the income tax credit is granted. The Comptroller’s Office estimates that St. Mary’s County income tax revenues may decrease by \$500,000 annually. Income tax revenues for the Town of Leonardtown may also decrease. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: St. Mary's County provides a real and personal property tax credit for new and expanding businesses that meet certain requirements. The State has numerous employment and economic development tax credits; however, the earned income credit and taxes paid to another state tax credit are the only tax credits allowed against the local income tax.

Background: The *Strategic Plan to Build an Innovation Driven Economy* is the product of the St. Mary's County Economic Development Commission. A detailed report was released in January 2017 that identified five targeted growth industries: (1) advanced manufacturing; (2) unmanned and autonomous systems; (3) aviation and aircraft modification; (4) tourism; and (5) agriculture and aquaculture. St. Mary's County currently imposes a 3.0% local income tax rate and is projected to collect \$92.9 million in local income tax revenues in fiscal 2019.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$55,000 in fiscal 2020 to add the tax credit to personal income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Local Revenues: Based on employment data within eligible industries, the Comptroller's Office estimates that St. Mary's County income tax revenues may decrease by about \$500,000 annually. Income tax revenues for the Town of Leonardtown may decrease minimally to the extent its residents claim tax credits.

Small Business Effect: Eligible small businesses whose employees can claim tax credits may benefit from a competitive advantage in hiring and retaining employees and potentially by lower employee compensation costs. Small businesses within St. Mary's County that do not qualify and other small businesses in surrounding counties may be negatively impacted through a competitive disadvantage in hiring and retaining employees.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): St. Mary's County; Comptroller's Office; Department of Legislative Services

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