Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 733 (Senator Carter)
Budget and Taxation Ways and Means

Task Force to Study Transparency in Tax Incentives

This bill establishes a Task Force to Study Transparency in Tax Incentives, to be staffed by the State Department of Assessments and Taxation (SDAT). The task force must submit its findings and recommendations to the Governor, local governments that provide a tax incentive, and the General Assembly by July 1, 2025. **The bill takes effect July 1, 2024, and terminates December 31, 2025.**

Fiscal Summary

State Effect: To the extent that staffing needs for SDAT exceed current staff capabilities and budgeted resources, the department may incur increased expenditures. Any expense reimbursements for task force members are assumed to be minimal and absorbable within existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The task force must (1) study the use and performance of the tax incentives; (2) identify the most appropriate performance metrics for evaluating the tax incentives; (3) collect data, for the last five years, necessary to evaluate the tax incentives using the most appropriate performance metrics; and (4) make recommendations regarding the implementation of uniform reporting for data on and evaluation of the tax incentives, the method for processing, presenting, and preserving data on the tax incentives, the establishment of standard performance metrics to evaluate the tax incentives, and the creation of a public database to make the data and performance evaluation of the tax incentives publicly available.

Tax incentives are defined as (1) tax increment financing (TIF); (2) payments in lieu of taxes agreements; (3) the Enterprise Zone property tax credit; and (4) the Brownfields Revitalization Incentive Program.

Current Law: The Tax Expenditure Evaluation Act establishes a legislative process for evaluating certain tax credits, exemptions, and preferences. The Enterprise Zone Tax Credit Program was first evaluated on July 1, 2014, and reevaluated July 1, 2021. A copy of the report can be found at the following link: Evaluation of the Enterprise Zone Tax Credit (maryland.gov)

Established in 1982, the Enterprise Zone Tax Credit Program was designed to encourage economic growth within economically distressed areas and to improve the employment of the chronically unemployed. Businesses located within an enterprise zone are eligible for local property tax credits and State income tax credits.

There has not been an evaluation of the Brownfields Revitalization Incentive Program.

Payment in Lieu of Taxes

A payment in lieu of taxes (PILOT) is an agreement between a jurisdiction and a developer, business, or landowner that substitutes a negotiated payment for annual real estate taxes that are traditionally due on a property. PILOTs are generally applied to two categories of properties: tax-exempt properties; and nonexempt properties.

Tax Increment Financing

All counties and municipalities in Maryland are authorized to utilize TIF under Title 12, Subtitle 2 of the Economic Development Article (the Tax Increment Financing Act). In Baltimore City, the authority to use TIF is provided in the city charter. Counties and municipalities (including Baltimore City) may issue bonds to finance the development of an industrial, commercial, or residential area.

TIF is a public financing method that uses future gains in tax revenues to finance current improvements. The increase in the property tax revenue generated by new commercial development in a specific area, the TIF district, pays for bonds issued to finance site improvements, infrastructure, and other project costs located on public property. In a TIF district, the local government "freezes" the existing property tax base and uses the property tax revenue from this base as it would normally use such funds. The difference between the current tax base and the frozen base in each future year is termed the incremental valuation. The local government apportions the property tax revenue on the incremental valuation to a special account for certain purposes including to pay debt service on the bonds and to potentially pay for additional public expenditures in the TIF district. The TIF district ceases to exist upon the retirement of the bonds, and after that time, all property tax revenue may be appropriated by normal means.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - February 12, 2024
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