Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 919 (Delegate Palakovich Carr)
Ways and Means

State Tax Credits, Exemptions, and Deductions - Alterations and Repeal

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This bill (1) sunsets various business-related tax credit programs; (2) alters eligibility for the obsolete State income tax credit for Class F vehicle registration; (3) repeals various sales and use tax exemptions; (4) repeals the motor fuel tax cost of collection allowances; and (5) limits the tobacco tax exemption for cigarettes brought into the State by a consumer to one carton of cigarettes (reduced from five cartons). **The bill generally takes effect June 1, 2025. Certain tax credit provisions take effect July 1, 2025, and apply to tax year 2025 and beyond. Provisions relating to sales and use tax and tobacco tax exemptions and motor fuel tax allowances take effect July 1, 2025.**

Fiscal Summary

State Effect: In FY 2026, quantified general and special fund revenue increases total $3.9 million and $2.1 million, respectively, and quantified Transportation Trust Fund (TTF) expenditures for local highway user revenue grants total $0.7 million. Future years reflect the timing of tax credit sunset provisions and ongoing revenues. General and special fund revenues and TTF expenditures increase further in FY 2026 and future years due to certain unquantified provisions (not shown below). General and special fund expenditures for the Department of Commerce decrease by $8.6 million and $3.4 million, respectively, in FY 2026 and by $12.0 million in total in both FY 2027 and 2028, as discussed below.

($ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	$3.9	$13.9	$5.9	$5.9	$4.3
SF Revenue	$2.1	$4.5	$2.5	$2.5	$2.1
GF Expenditure	($8.6)	$0	$0	$0	$0
SF Expenditure	($2.7)	$0.3	$0.3	$0.3	$0.2
GF/SF Exp.	$0	($12.0)	($12.0)	$0	$0
Net Effect	$17.3	$30.1	$20.1	$8.1	$6.1

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

Local Effect: Local highway user revenues increase by at least $0.7 million in FY 2026, $0.3 million in FY 2027 through 2029, and $0.2 million in FY 2030, as discussed below.

Small Business Effect: Minimal.

Analysis

Bill Summary: Affected tax credit programs and their sunset provisions under current law and under the bill are shown in **Exhibit 1**.

Exhibit 1
Sunset Provisions for Affected Tax Credit Programs
Current Law vs. the Bill

	Sunset Under	
Program	**Current Law**	**The Bill**
Job Creation Tax Credit	January 1, 2027	January 1, 2026
One Maryland Tax Credit	None	January 1, 2026
Opportunity Zone Enhancement Program	Tax Years After 2026	Tax Years After 2025
R&D Tax Credit	Tax Years After 2025	Tax Years After 2024
BIITC Program	June 30, 2028	June 30, 2025
Employer Security Clearance Costs Tax Credit	Tax Years After 2027	Tax Years After 2025
Buy Maryland Cybersecurity Tax Credit	None	Tax Years After 2025

BIITC: Biotechnology Investment Incentive Tax Credit
R&D: research and development

Source: Department of Legislative Services

The bill also repeals existing sales and use tax exemptions for:

- the sale of machinery and equipment used to produce bituminous concrete and utilities used to operate the machinery and equipment;
- the sale of specified equipment used by a retail food vendor to manufacture or process bread or bakery goods for resale if (1) the taxable price of each piece of equipment is at least $2,000 and (2) the retail food vendor operates a substantial grocery or market business at the same location where the food is sold;
- the sale of precious metal bullion or coins with a sale price greater than $1,000;
- the pre-2008 sale of machinery and equipment that (1) enables a television or radio station to originate and broadcast or receive and broadcast digital signals and

(2) was or is purchased to comply with or facilitate compliance with the Telecommunications Act of 1996; and

- the sale of construction material and warehousing equipment that is purchased by a person solely for use in a specified target redevelopment area in Baltimore County, if the buyer provides the vendor with evidence of eligibility for the exemption issued by the Comptroller.

Current Law:

Job Creation Tax Credit

The Job Creation Tax Credit Program offers nonrefundable tax credits against the income tax or the insurance premiums tax to a business that establishes or expands a facility in the State that (1) is primarily engaged in an eligible industry and (2) within a 24-month period, creates:

- at least 60 qualifying positions (as defined);
- at least 25 qualifying positions in a State priority funding area (PFA); or
- at least 10 qualifying positions in a county with an annual average employment that is less than 75,000 or a median household income that is less than two-thirds of the statewide median household income.

The value of the credit is generally equal to $3,000 per qualified employee employed during the credit year (for a facility located in a revitalization area, $5,000 per qualified employee employed during the credit year), subject to a maximum of $1.0 million per qualified business entity per credit year. The credit may be carried forward up to five tax years and may not be carried back to a preceding tax year.

Chapter 191 of 2021 established an enhanced job creation tax credit for the hiring of qualified veteran employees ($4,000 per qualified veteran employee employed during the credit year or, for a facility located in a revitalization area, $6,000 per qualified veteran employee employed during the credit year), and extended program eligibility to small businesses that hire at least one qualified veteran employee for a full-time position in the State. Under the Act, a qualifying small business may claim a credit equal to $2,500 per qualified veteran employee employed during the credit year, for up to five qualified veteran employees per credit year.

Commerce may certify up to $4.0 million in job creation tax credits annually. The program is scheduled to terminate January 1, 2027, after which a business entity may be considered for eligibility for the tax credit based on positions filled before this termination date, and tax credits earned may be carried forward.

One Maryland Tax Credit

The One Maryland Program offers tax credits against the income tax or the insurance premiums tax to businesses that establish or expand a business facility in a Tier I county with eligible project costs of at least $500,000. To be eligible for the credit, the new or expanded business facility must be:

- located in a PFA, eligible for funding outside of a PFA, or located in a qualified opportunity zone (QOZ) in Allegany, Garrett, Somerset, or Wicomico counties;
- primarily engaged in an eligible industry; and
- create a minimum of 10 qualified positions (as defined) during a 24-month period.

The amount of the credit is equal to 100% of total eligible project costs, up to a maximum of $5.0 million (if the business entity creates at least 50 qualified positions), $2.5 million (if the business entity creates at least 25 qualified positions but fewer than 50 qualified positions), or $1.0 million (if the business entity creates at least 10 qualified positions but fewer than 25 qualified positions). A QOZ business that creates at least 50 qualified positions may be eligible for an enhanced One Maryland credit of up to $5.5 million under the Opportunity Zone Enhancement Program.

The tax credit may be carried forward up to 10 tax years and is partially refundable beginning in the fifth tax year. The aggregate amount of credits that Commerce may award under the program is not subject to limitation. The program is not subject to termination.

Research and Development Tax Credit

The Maryland Research and Development (R&D) Tax Credit is equal to 10% of the amount of Maryland qualified R&D expenses paid or incurred during the taxable year that exceed the Maryland base amount (as defined), subject to an annual $250,000 per taxpayer cap and certain annual aggregate limits. The tax credit is generally nonrefundable and may be carried forward for up to seven years after the tax year in which the expense was incurred. The tax credit is fully refundable for a small business, which is defined as a for-profit corporation, limited liability company, partnership, or sole proprietorship with net book value assets totaling less than $5.0 million at the beginning or end of the taxable year for which Maryland qualified R&D expenses are incurred.

Commerce administers the tax credit application, approval, and certification process and may approve up to $12.0 million in tax credits annually, of which $3.5 million is set aside for small businesses. If the total amount of credits applied for by small businesses exceeds $3.5 million, the amount approved for each small business applicant is reduced by a proportional amount of the excess. Similarly, if the total amount of credits applied for by non-small businesses exceeds $8.5 million (plus any unused amount of the small business set-aside), the amount approved for each non-small business applicant is reduced by a proportional amount of the excess. The tax credit program terminates June 30, 2027.

Employer Security Clearance Costs Tax Credit

For tax years 2023 through 2027, an individual or corporation that employs up to 500 employees may claim nonrefundable credits against the State income tax for (1) up to $200,000 of security clearance administrative expenses; (2) small businesses that perform security-based contracting, up to $200,000 of first-year rental payments for spaces leased in the State; and (3) up to $200,000 of construction and equipment costs incurred to construct or renovate a single sensitive compartmented information facility (SCIF) (up to $500,000 in total for eligible costs to construct or renovate multiple SCIFs). Any excess credit may be carried forward until fully used.

Commerce administers the tax credit application, approval, and certification process and may approve up to $2.0 million in credits annually. If the total amount of credits applied for exceeds this annual cap, the amount approved for each applicant is reduced by a proportional amount of the excess.

Opportunity Zone Enhancement Program

The Opportunity Zone Enhancement Program, administered by Commerce, offers certain enhanced tax credits to QOZ businesses and qualified opportunity funds (QOFs) for tax years 2019 through 2026 under the following programs: (1) Job Creation Tax Credit; (2) One Maryland Tax Credit; (3) Enterprise Zone Tax Credit; (4) Biotechnology Investment Incentive Tax Credit (BIITC); (5) Innovation Investment Incentive Tax Credit; and (6) More Jobs for Marylanders Tax Credit (which terminates June 30, 2025).

Biotechnology Investment Incentive Tax Credit

The BIITC program offers refundable State income tax credits to qualified investors that invest at least $25,000 in a qualified Maryland biotechnology company. The credit is generally equal to 33% of the qualified investment, up to $250,000. Investments in qualified Maryland biotechnology companies located in Allegany, Dorchester, Garrett, or Somerset counties or in a Regional Institution Strategic Enterprise (better known as RISE) zone (subject to certain requirements) are eligible for an enhanced credit equal to 50% of the qualified investment, up to $500,000. QOFs that invest in qualified companies located in an opportunity zone are also eligible for certain enhanced credits.

Commerce administers the tax credit application, approval, and certification process. Tax credit awards are subject to annual appropriations to the BIITC Reserve Fund; Commerce may not certify eligibility for tax credits for investments in a single qualified company that exceed 10% of the total appropriations to the BIITC Reserve Fund for the fiscal year. The Comptroller must transfer the amount of certified credits from the reserve fund to the general fund on a quarterly basis. Commerce may not issue any tax credit certificates under the BIITC program after fiscal 2028.

Tax Credit for Class F Vehicle Registration

Chapter 502 of 2017 extended and modified the State income tax credit for the expense of registering a tractor-trailer (Class F vehicle); the Act applies to tax years 2017 through 2019 only. The credit is equal to $400 per qualified vehicle registered by the taxpayer during the tax year, subject to a $10,000 annual per-taxpayer limit. Any unused amount of credit may not be carried over to any other tax year. The Motor Vehicle Administration administered the tax credit application, approval, and certification process and was authorized to approve up to $500,000 in tax credits per tax year.

Motor Fuel Tax Cost of Collection Allowances

A licensed gasoline dealer or licensed special fuel seller must deduct the first 0.5% of the first 10 cents of the motor fuel tax on each gallon of motor fuel as a discount (to be allocated to subsequent purchasers as specified) in lieu of an allowance for evaporation, shrinkage, and handling and to reimburse the dealer or seller for the cost of collecting the tax.

State Sales and Use Tax

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately $6.0 billion in fiscal 2025 and $6.1 billion in fiscal 2026, according to the December 2024 revenue forecast. Numerous sales and use tax exemptions are provided under current law.

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions, to pay to the Blueprint for Maryland's Future Fund (BMFF) the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

Tobacco Tax Exemptions for Cigarettes

The tobacco tax does not apply to cigarettes that a consumer brings into the State if the quantity brought from another state or from a U.S. armed forces installation or reservation does not exceed five cartons.

State Revenues: **Exhibit 2** displays the bill's quantified effect on State revenues by provision and fund type. As shown in the exhibit, the bill's quantified effect on State revenues totals $6.0 million in fiscal 2026, including $3.9 million in general fund revenues. Future years reflect the timing of tax credit sunset provisions and ongoing revenues.

Exhibit 2
Quantifiable State Revenue Effects
Fiscal 2026-2030
($ in Millions)

	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
By Provision					
Accelerate Termination of R&D Tax Credit	$0.0	$12.0	$0.0	$0.0	$0.0
Repeal Employer Security Clearance Costs Tax Credit	0.0	0.0	2.0	2.0	0.0
Sunset Buy Maryland Cybersecurity Tax Credit	0.0	0.4	0.4	0.4	0.4
Repeal Motor Fuel Tax Cost of Collection Allowances	1.6	1.6	1.6	1.6	1.5
Repeal Certain SUT Exemptions [1]	4.4	4.4	4.4	4.4	4.4
By Fund [2]					
General Fund	$3.9	$13.9	$5.9	$5.9	$4.3
HEIF	0.0	0.6	0.1	0.1	0.0
TTF	1.5	3.3	1.8	1.8	1.5
BMFF	0.5	0.5	0.5	0.5	0.5
Total Quantified State Revenues	**$6.0**	**$18.4**	**$8.4**	**$8.4**	**$6.3**

BMFF: Blueprint for Maryland's Future Fund
HEIF: Higher Education Investment Fund
R&D: research and development
SUT: sales and use tax
TTF: Transportation Trust Fund

[1] Amounts shown reflect the estimated effect of the bill's repeal of specified sales and use tax exemptions relating to machinery and equipment used to produce bituminous concrete ($0.4 million annually in fiscal 2026 through 2030) and precious metal bullion and coins ($4.0 million annually in fiscal 2026 through 2030).

[2] Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and Waterway Improvement Fund revenues (not shown) attributable to the repeal of motor fuel tax cost of collection allowances total less than $0.1 million annually in fiscal 2026 through 2030.

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Actual revenues under the quantified provisions may differ from the amounts shown due to the timing and amount of precluded tax credit claims and carryforwards.

General fund and BMFF revenues increase further in fiscal 2026 through 2030 due to the bill's (1) repeal of sales and use tax exemptions relating to the sale of certain equipment used to manufacture or process bread or bakery goods for resale and certain construction material and warehousing equipment for use in a target redevelopment area and (2) alterations to the tobacco tax exemption for cigarettes brought into the State by a consumer (not quantified above).

Other provisions of the bill not quantified above (relating to the sunset of the Job Creation Tax Credit, Opportunity Zone Enhancement Program, and One Maryland Tax Credit) result in an increase in general fund revenues beginning as early as fiscal 2026 due to a decrease in credits claimed. The effect may be significant in any given year. To the extent the provisions result in a decrease in credits claimed against the corporate income tax, Higher Education Investment Fund revenues and TTF revenues also increase. To the extent the provisions preclude credits that would be claimed by a corporation that operates a qualified data center, Strategic Energy Investment Fund revenues are also affected.

State Expenditures: TTF expenditures for local highway user revenue grants increase by at least $0.7 million in fiscal 2026, $0.3 million in each of fiscal 2027 through 2029, and $0.2 million in fiscal 2030 due to quantified decreases in tax credits claimed against the corporate income tax and increased motor fuel tax collections due to the bill's repeal of the cost of collection allowances.

As discussed above, the bill accelerates the termination of the BIITC program by three years, to June 30, 2025. The fiscal 2026 budget as introduced includes a $12.0 million appropriation to the BIITC Reserve Fund, including $8.6 million in general funds and $3.4 million in special funds (reflecting the unused fund balance carried over from the prior year). Thus, general and special fund expenditures for Commerce decrease by $8.6 million and $3.4 million, respectively, in fiscal 2026 and by a total of $12.0 million in each of fiscal 2027 and 2028 (based on historic annual funding levels).

Local Revenues: Local highway user revenues increase by at least $0.7 million in fiscal 2026, $0.3 million in each of fiscal 2027 through 2029, and $0.2 million in fiscal 2030 due to quantified decreases in tax credits claimed against the corporate income tax and increased motor fuel tax collections due to the bill's repeal of the cost of collection allowances.

Additional Information

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

Designated Cross File: None.

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

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