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Testimony in Support of HB 919
State Tax Credits, Exemptions, and Deductions - Alterations and Repeal

This legislation accelerates the termination of several costly tax credits that the Department of Legislative Services (DLS) has recommended be terminated. Additionally, it alters and repeals several other tax exemptions that benefit special interest groups.

Since the mid-1990s, the number of state business tax credits has grown significantly, as have related concerns about the actual benefits and costs of many of these credits. Prior to 1995, there was one tax credit for individuals (the Earned Income Tax Credit) and two primarily business tax credits (Enterprise Zones and Maryland-mined coal credits). Since 1995, at least 40 tax credits primarily for businesses and at least 20 tax credits primarily for individuals have been established.

Under Maryland's Tax Expenditure Evaluation Act, DLS is tasked by the General Assembly with conducting an evaluation at least once every 10 years of each income tax credit that is primarily claimed by business entities and has an annual fiscal impact exceeding $5 million to determine whether each expenditure is "necessary for the public interest."[1] DLS consults with the Department of Budget and Management, the Comptroller, and other state and local agencies in conducting the evaluations. These are intensive evaluations that involve multiple DLS staff preparing and reviewing detailed tax data, program reports, and internal agency operations. DLS is required to evaluate a number of factors, including whether each tax credit is meeting its objectives and whether the goals of each tax credit could be more effectively carried out by other means. DLS is also required to make recommendations on whether each tax credit should be continued or be terminated.

Over the years, DLS has unequivocally recommended that certain tax credits be eliminated because they are ineffective and duplicative. HB 919 implements many of DLS's recommendations in order to help address Maryland's budget deficit. In FY 2026, the state's budget deficit is projected to reach $3 billion, according to the revenue analysis released this year by DLS.

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[1] Tax-General §1-302.

What This Bill Does

1. Accelerates the termination date for the Job Creation Tax Credit program by one year, from January 1, 2027 to January 1, 2026. **DLS recommended terminating this program in 2016.**[2]
2. Terminates the One Maryland Economic Development Tax Credit program on January 1, 2026 and allows existing credit recipients to carry their unused credit amounts into future tax years. **DLS recommended terminating this program in 2022.**[3]
3. Accelerates the Opportunity Zone Enhancement Program's final year of applicability from tax year 2026 to tax year 2025. **DLS recommended terminating this program in 2022.**[4]
4. Accelerates the Research and Development Tax Credit program's final year of applicability from tax year 2025 to tax year 2024 and sunset date from June 30, 2027 to June 30, 2026. **DLS recommended terminating this program in 2024.**[5]
5. Accelerates the date on which new credit certificates must cease under the Biotechnology Investment Tax Credit program from June 30, 2028 to June 30, 2025. **DLS recommended terminating this program in 2018.**[6]
6. Accelerates the Security Clearance Administrative Expenses Tax Credit program's final year of applicability from tax year 2027 to tax year 2025. According to the Administration: "*The program lapsed in FY2024 and there were no immediate consequences identified. Given that, this presents an opportunity to save $2 million in FY2026 to offset costs of programs with clearer returns on investment.*"
7. Establishes the Purchase of Cybersecurity Technology Tax Credit program's final year of applicability as tax year 2025. **DLS recommended terminating this program in 2023.**[7]
8. Limits eligibility for the income tax credit for tractor-trailer vehicle registrations to individuals or corporations that are headquartered in Maryland.
9. Repeals the motor fuel vendor discount on motor fuel tax.
10. Repeals the sales tax exemption for machinery or equipment used to make certain concrete.
11. Repeals the sales tax exemption for baking equipment with a sales price over $2,000.
12. Repeals the sales tax exemption for precious metal bullion or coins with a sales price over $1,000. **DLS is recommending repealing this exemption in the BRFA.**
13. Repeals the sales tax exemption for certain construction material and warehousing equipment.
14. Reduces the tobacco tax allowance for out-of-state cigarettes from 5 cartons to 1 carton. Given the rise in cigarette prices, this update is needed to bring the allowance more in line with the existing $100 allowance for other out-of-state tobacco products. This change will also help to rein in the illicit market.

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[2] Evaluation of the Job Creation Tax Credit
[3] Evaluation of the One Maryland Economic Development Tax Credit
[4] *Id.*
[5] Evaluation of the Research and Development Tax Credit
[6] Evaluation of the Biotechnology Investment Incentive Tax Credit
[7] Evaluation of the Credit for the Purchase of Cybersecurity Technology or Services