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Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

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HB 35 – ECONOMIC DEVELOPMENT – INCOME TAX BENEFIT TRANSFER PROGRAM – ESTABLISHMENT

LETTER OF INFORMATION

DATE: January 30th, 2025

COMMITTEE: WAYS AND MEANS

SUMMARY OF BILL: HB 35 establishes an "Income Tax Benefit Transfer Program," allowing eligible technology companies to transfer unused tax benefits from net operating subtraction modifications or research and development income tax credits to other businesses in the State. The eligible technology company would receive at least 80% of the transferred benefits to fund eligible expenses associated with operating in the State, including real estate acquisition, development, and construction, and other costs determined to be applicable by the Department of Commerce.

EXPLANATION: The Department of Commerce administers the Income Tax Benefit Transfer Program with an annual cap of $35 million in total benefit transfers. This program enables the transfer of unused net operating subtraction modifications and research and development tax credits. Full utilization of the program would result in additional revenue adjustments related to these tax benefits. Maryland offers net operating subtraction modifications to support businesses with variable annual profits. Research and development income tax credits aim to encourage investment in Maryland. The transfer mechanism would allow eligible companies to receive a cash benefit for unused tax benefits. The program currently includes eligibility standards for qualifying technology companies while establishing different parameters for recipients of transferred benefits.

The program's annual cap of $35 million transfers would impact State revenue projections in future fiscal years. The Department of Budget and Management (DBM) is charged with submitting a balanced budget to the General Assembly annually and will be working with the General Assembly to achieve structural balance over the long term. In light of current projected general fund deficits in fiscal 2027 forward, the Department urges caution in passing legislation to significantly increase general fund expenditures without commensurate decreases in other areas or additional revenue to fund the new activity. State government must be intentional, disciplined, and strategic with its allocation of State funding to ensure maximum impact toward priority outcomes.

Given the forecasted out-year deficits for the General Fund, it would be challenging for the State to manage this increase in spending.

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