SB 229

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 229 (The President)
(Administration)

Budget and Taxation | Referred to Ways and Means

Job Creation Tax Credit Act of 1997

This amended Administration bill provides that a "qualified business" may receive a job creation tax credit if it creates at least 25 qualified positions during a two-year period and expands or establishes a facility located in a "State Priority Funding Area". A business may not be certified to receive tax credits unless it notifies the Department of Business and Economic Development (DBED) that it intends to seek such certification before hiring employees, rather than before the establishment or expansion of the facility.

The definition of qualified businesses is expanded to include business services if the business establishes or expands in a "State Priority Funding Area." The bill allows the Standard Industrial Classification Manual to be used as a guideline for the determination of qualifying businesses rather than being used as a strict rule for the determination. The bill further requires that businesses be predominately engaged in an eligible activity. The bill repeals the additional $500 tax credit allowable for qualified employees that meet the definition of disabled individual.

Fiscal Summary

State Effect: Indeterminate significant decrease in State revenues due to the tax credits; other tax revenues could potentially increase by an indeterminate amount due to economic and employment development. Potential indeterminate decrease in expenditures on public assistance programs. Administrative expenditures could increase by $20,200 in FY 1998; out-year expenditures could increase depending upon the number of applications for certification received.

Local Effect: Indeterminate effect on local revenues; expenditures would not be affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small businesses (attached). Fiscal Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

Bill Summary: A State Priority Funding Area is defined under the bill to include the following areas:

- incorporated municipalities;
- "Neighborhood Revitalization" areas;
- enterprise zones;
- areas located between I-495 and the District of Columbia; and
- areas located between I-695 and Baltimore City.

State Effect:

Job Creation Tax Credit

The total amount of credits allowed under the Job Creation Tax Credit Program depends upon the number of qualified businesses that hire at least 25 but less than 60 qualified positions (or the payroll equivalent) during a two-year period and expands or establishes a facility located in a State Priority Funding Area. DBED estimates that this decrease in the minimum number of jobs created could double the job creation tax credits claimed.

In addition, the number of tax credits provided could increase by including businesses engaged in "business services" as an eligible employer if the business expands or establishes in a State Priority Funding Area. No precise information is currently available on how many businesses this would affect. However, this provision would apply to businesses engaged in advertising, consumer credit activities, mailing and graphics services, miscellaneous equipment rental and leasing, personnel supply services, services to buildings, and computer services. The total number of additional tax credits provided under this bill cannot be estimated at this time, though it is expected to be significant.

Under the current Job Creation Tax Credit Program, from July 1996 to January 1997, 27 businesses have been certified to receive job creation tax credits; three businesses have had their applications turned down. The total jobs affected is approximately 6,400 by fiscal 2001; however, DBED did not provide information on how many of these positions would be in an enterprise zone. Therefore, the total amount of tax credits received is not known at this time.

However, if all jobs qualified for the maximum credit amounts of $1,000, or $1,500 in an enterprise zone (or for a disabled individual), total tax credits provided during the first seven months of the program would be between $6.4 million and $9.6 million. This amount will actually be spread out over the next five years. It was also originally projected that the program will phase in over time, with participation increasing after the first year.

Some tax credit allowances would decrease due to the repeal of the additional $500 tax credit allowable for disabled individuals; it is not known at this time how many qualified employees would meet this criteria.

Credits taken on an individual return affect general fund revenues. Any credit applied to corporate income taxes will affect both general and special fund revenues, since approximately 23% of this tax is allocated to the Gasoline and Motor Vehicle Revenue Account (GMVRA); these special funds are then distributed 70/30 to the Transportation Trust Fund and to the local governments. The credit could be applied against the financial institution franchise tax, the public service company franchise tax, or the insurance premium tax rather than the income tax. The credit amount allowed would be the same.

A certain number of jobs that would qualify under the expanded program would have been created anyway, either through the course of normal business expansion or a relocation based on other State incentives. To the extent that jobs would have been created absent the tax credit program, State revenues would decrease. However, if jobs are created through business relocations or expansions that would not have otherwise occurred, State tax revenues would increase.

Administrative Costs

DBED advises that administrative expenses for personnel, equipment, and other operating expenditures could increase by $37,300 in fiscal 1998. This estimate includes personnel costs for two part-time permanent positions, one professional and one clerical. The Department of Fiscal Services advises that should applications for tax credit certifications increase as DBED projects, one additional part-time professional would be warranted. However, a part-time position should be hired on a contractual basis; any such increase in personnel would be dependent upon the actual increase in workload.

General fund expenditures could increase by an estimated $20,200 in fiscal 1998, which reflects the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring one part-time Industrial Representative to certify tax credit applications. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$16,400
Operating Expenses	3,800
Total FY 1998 State Expenditures	**$20,200**

Future year expenditures would reflect 2% annual increases in ongoing operating expenses and any personnel increases or decreases necessary. Should the workload increase significantly, then DBED might need to hire a part-time Clerk or convert the Industrial Representative to full-time. However, should the workload be less than currently projected, the contractual position could be phased out.

State Expenditures on Assistance Programs

If any of the employees for whom the tax credit is claimed were receiving unemployment benefits immediately prior to their being hired, expenditures from the Unemployment Trust Fund would decline. Additional savings may result from employment opportunities for individuals receiving other forms of public assistance.

Local Effect: To the extent that this legislation spurs economic and employment development, tax revenues could increase. However, local revenues that result from the distribution of GMVRA funds would decrease.

Information Source(s): Office of the Comptroller, Department of Business and Economic Development, Department of Assessments and Taxation, Maryland Insurance Administration, Department of Fiscal Services

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