

**Department of Legislative Services**  
 Maryland General Assembly  
 2014 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 450  
 Ways and Means

(Delegate Hixson, *et al.*)

Budget and Taxation

**Income Tax Credit - Endow Maryland**

This bill creates a tax credit against the State income tax for donations made to a qualified permanent endowment fund at an eligible community foundation. The value of the credit is equal to the lesser of 25% of the eligible donation or \$50,000. The Department of Housing and Community Development (DHCD) is required to administer the credit and adopt regulations implementing the credit. DHCD may award a maximum of \$250,000 in credits in each tax year.

The bill takes effect July 1, 2014, and applies to tax years 2015 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$225,900 in FY 2016 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$7,600 in FY 2016, and Higher Education Investment Fund (HEIF) revenues decrease by \$2,800. General fund expenditures increase by \$39,200 in FY 2015 due to implementation costs at DHCD. Future year expenditure estimates reflect ongoing DHCD administrative costs and implementation costs at the Comptroller’s Office.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	\$0	(\$225,900)	(\$226,800)	(\$226,800)	(\$226,800)
SF Revenue	\$0	(\$10,400)	(\$9,500)	(\$9,500)	(\$9,500)
GF Expenditure	\$39,200	\$150,600	\$75,000	\$78,500	\$82,200
Net Effect	(\$39,200)	(\$386,900)	(\$311,300)	(\$314,800)	(\$318,500)

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

**Local Effect:** Local highway user revenues decrease by about \$700 annually beginning in FY 2016 as a result of credits claimed against the corporate income tax. Local income tax revenues increase by about \$6,200 annually beginning in FY 2016 due to the requirement that taxpayers add-back any amount of credit claimed. No effect on expenditures.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** Businesses and individuals can claim an income tax credit for an eligible donation of at least \$500 to a qualified permanent endowment fund at an eligible community foundation. The value of the credit is equal to the lesser of 25% of the eligible donation or \$50,000. A taxpayer claiming the credit is required to add back the amount of the credit claimed to Maryland adjusted gross income or Maryland modified income under certain circumstances. Any unused amount of the credit may be carried forward for five taxable years. Taxpayers seeking the tax credit must apply to DHCD for the qualified donations planned in the tax year; applications are approved on a first-come, first-served basis until the total cap for the tax year is reached.

DHCD is required to (1) approve tax credit applications in a timely manner; (2) reserve at least 10% of all credits for donations of \$30,000 or less; (3) report annually to the Comptroller's Office and the State Department of Assessments and Taxation the donations that have been approved for tax credit certificates in the previous year; and (4) adopt regulations to implement the credit and specify application, approval, and monitoring criteria and procedures.

An eligible community foundation is an organization that (1) is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code; (2) is commonly known as a community trust, fund, endowment, or foundation that conveys the concept of a capital or endowment fund to support charitable activities in the community or area that it serves; (3) satisfies the public support test under Section 170(b)(1)(a)(vi) of the Internal Revenue Code; and (4) is in compliance with national standards established through the Council on Foundations.

## **Current Law/Background:**

### *Federal and State Tax Treatment of Charitable Contributions*

Individuals who itemize deductions can deduct eligible charitable donations, which typically lowers federal and State income tax liability. Corporations (other than S corporations) can deduct charitable contributions on their income tax returns, subject to limitations. Sole proprietors, partners in a partnership, or shareholders in an S corporation may be able to deduct charitable contributions made by their business on the federal Schedule A form.

### *Neighborhood and Community Assistance Tax Credit*

Chapter 636 of 1996 established the Neighborhood and Community Assistance Tax Credit. A business or individual can claim a tax credit for 50% of the eligible contributions made to DHCD-approved projects conducted by nonprofit organizations in a priority funding area. The tax credit can be claimed against the personal, corporate, public service franchise, and insurance premiums taxes. The purposes of DHCD's Neighborhood and Community Assistance Program are to (1) help nonprofit organizations to carry out approved projects in priority funding areas; (2) encourage business entities to invest in priority funding areas; and (3) strengthen partnerships between public and private entities. Chapter 82 of 2013 increased the maximum sum of contributions eligible for a tax credit offered under the program from \$2 million to \$3.5 million in each fiscal year.

**State Revenues:** DHCD may approve a maximum of \$250,000 in credits annually beginning in tax year 2015. As a result, general fund revenues will decrease by \$225,900 in fiscal 2016. TTF revenues will decrease by \$7,600 in fiscal 2016, and HEIF revenues will decrease by \$2,800. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the proposed tax credit.

**Exhibit 1**  
**Projected Impact on State and Local Revenues**  
**Fiscal 2015-2019**

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<b>Total State Revenue</b>	<b>\$0</b>	<b>(\$236,300)</b>	<b>(\$236,300)</b>	<b>(\$236,300)</b>	<b>(\$236,300)</b>
General Fund	0	(225,900)	(226,800)	(226,800)	(226,800)
HEIF	0	(2,800)	(2,800)	(2,800)	(2,800)
TTF	0	(7,600)	(6,700)	(6,700)	(6,700)
MDOT	0	(6,900)	(6,100)	(6,100)	(6,100)
LHUR	0	(700)	(600)	(600)	(600)
<b>Local Income Tax Revenues</b>	<b>\$0</b>	<b>\$6,200</b>	<b>\$6,200</b>	<b>\$6,200</b>	<b>\$6,200</b>

LHUR = Local Highway User Revenues

To the extent DHCD does not award the maximum amount of credits in each fiscal year, revenue losses will be less than estimated. Taxpayers claiming the credit are required to add back the amount of the credit claimed to Maryland adjusted gross income or Maryland modified income under certain circumstances; net revenue losses will be less than the total amount that can be awarded. This estimate also assumes that 80% of all credits are claimed against the personal income tax with the remaining amount claimed against the corporate income tax.

**State Expenditures:** General fund expenditures increase by \$39,200 in fiscal 2015 and by \$150,600 in fiscal 2016 due to implementation costs at DHCD and the Comptroller's Office, as described below.

DHCD advises that it will incur additional costs beginning in fiscal 2015 as a result of hiring one program administrator. As a result, general fund expenditures will increase by \$39,200 in fiscal 2015. This estimate includes a salary, fringe benefits, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$34,497
Operating Expenses	<u>4,660</u>
<b>Total FY 2015 Expenditures</b>	<b>\$39,157</b>

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

The Comptroller's Office reports that it will incur a one-time expenditure increase of \$79,000 in fiscal 2016 to add the credit to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

**Local Revenues:** Local highway user revenues will decrease by about \$700 annually beginning in fiscal 2016 as a result of credits claimed against the corporate income tax, as shown in Exhibit 1. Local income tax revenues will increase by about \$6,200 annually beginning in fiscal 2016 due to the bill add-back's requirement.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 486 (Senators Manno and Middleton) - Budget and Taxation.

**Information Source(s):** Comptroller's Office, Department of Housing and Community Development, Department of Legislative Services

**Fiscal Note History:** First Reader - February 7, 2014  
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