

**Department of Legislative Services**  
 Maryland General Assembly  
 2015 Session

**FISCAL AND POLICY NOTE**

House Bill 843 (Delegate Hixson, *et al.*)  
 Ways and Means

**Housing and Community Development - Neighborhood and Community  
 Assistance Program Tax Credit - Maximum Contributions**

This bill increases the maximum sum of contributions eligible for a tax credit offered under the Department of Housing and Community Development’s (DHCD) Neighborhood and Community Assistance Program from \$3.5 million to \$6.0 million each fiscal year.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$479,400 in FY 2017 due to additional credits being awarded and claimed. Transportation Trust Fund (TTF) revenues decrease by \$14,600 and Higher Education Investment Fund (HEIF) revenues decrease by \$6,000 in FY 2017. Future year revenue decreases reflect the maximum amount of credits awarded each year, the estimated amount of the credit allowed in each year, and the carry forward of credits from previous years. Expenditures are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$0	(\$479,400)	(\$958,800)	(\$1,198,500)	(\$1,198,500)
SF Revenue	\$0	(\$20,600)	(\$41,200)	(\$51,500)	(\$51,500)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$500,000)	(\$1,000,000)	(\$1,250,000)	(\$1,250,000)

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

**Local Effect:** Local highway user revenues decrease by \$1,400 in FY 2017 and by \$3,500 in FY 2020. Expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law/Background:** 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.

For each fiscal year, a nonprofit organization may submit to DHCD, for approval under the program, a proposal for a project to provide services to a priority funding area. The project may include community services, redevelopment assistance, job training for low-income individuals, education, and crime prevention. The proposal must include specified information, including the project to be conducted, the priority funding area that will benefit from the project, and the estimated project costs, among other things. A proposal must be approved by the local jurisdiction in which the priority funding area is located before DHCD may approve it.

In considering a proposal and in determining the maximum amount of contributions eligible for tax credits, DHCD must consider any relevant factor, including the need for the project, the anticipated benefit to the priority funding area, the applicant's ability to successfully complete the project, and the geographic distribution of projects, among other things. DHCD may give preference to a proposal that benefits a sustainable community designated by DHCD's Business Development Program. DHCD may also request data and assistance from other units of the State in approving or disapproving a proposal and in determining eligible amounts.

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 contributions in excess of \$500 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. Any unused amount of credit can be carried forward for five tax years. An application for the tax credit must include the name of the approved project to which the business intends to contribute and certification of the value of any nonmonetary contribution.

Chapter 447 of 2006 altered the tax credit by allowing donations of real property, in addition to goods and monetary contributions, to qualify for the tax credit and by increasing the maximum value of the credit from \$125,000 to \$250,000. Chapter 82 of 2013 increased the maximum sum of contributions eligible for a tax credit from \$2.0 million to \$3.5 million each fiscal year.

The tax credit is in addition to any federal deduction for charitable donations. This deduction typically results in lower federal and State income tax liabilities. The combined effect of the tax benefits may reduce federal and State tax liabilities in an amount equal to the amount of the donation.

**State Revenues:** The bill increases the maximum sum of contributions eligible for a tax credit offered under the Neighborhood and Community Assistance Program from \$3.5 million to \$6.0 million in each fiscal year. As a result, general fund revenues decrease by \$479,400 in fiscal 2017. TTF revenues decrease by \$14,600 and HEIF revenues decrease by \$6,000 in fiscal 2017.

This estimate is based on the history of the existing tax credit and the following information and assumptions:

- due to the bill’s October 1, 2015 effective date, it is assumed that tax credits are not earned until calendar 2016;
- DHCD awards the maximum amount of credits in each fiscal year;
- 80% of credits are claimed against the personal income tax and the remaining 20% against the corporate income tax; and
- 40% of the tax credit is claimed in the current tax year, 40% is carried forward and claimed in the next tax year, and the remaining amount is carried forward in subsequent tax years.

**Exhibit 1** shows the estimated impact on State and local revenues from fiscal 2016 through 2020.

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**Exhibit 1**  
**State and Local Revenue Impacts**  
**Fiscal 2016-2020**

	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>FY 2018</u></b>	<b><u>FY 2019</u></b>	<b><u>FY 2020</u></b>
General Fund	\$0	(\$479,400)	(\$958,800)	(\$1,198,500)	(\$1,198,500)
HEIF	0	(6,000)	(12,000)	(15,000)	(15,000)
TTF	0	(14,600)	(29,200)	(36,500)	(36,500)
MDOT	0	(13,200)	(26,400)	(33,000)	(33,000)
LHUR	0	(1,400)	(2,800)	(3,500)	(3,500)
<b>Total Revenues</b>	<b>\$0</b>	<b>(\$500,000)</b>	<b>(\$1,000,000)</b>	<b>(\$1,250,000)</b>	<b>(\$1,250,000)</b>

HEIF: Higher Education Investment Fund  
TTF: Transportation Trust Fund  
MDOT: Maryland Department of Transportation  
LHUR: Local Highway User Revenues

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

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**Local Revenues:** Local highway user revenues decrease as a result of credits claimed against the corporate income tax. Local highway user revenues decrease by \$1,400 in fiscal 2017 and by \$3,500 by fiscal 2020, as shown in Exhibit 1.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 494 (Senator King, *et al.*) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 23, 2015  
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