

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 482

(Delegate Mosby, *et al.*)

Ways and Means

Budget and Taxation

Income Tax Credits – Endowments of Maryland Historically Black Colleges and Universities and Film Production Activity – Establishment and Alterations

This bill creates a tax credit against the State income tax for 25% of a donation made to a qualified permanent endowment fund at Bowie State University, Coppin State University, Morgan State University, or University of Maryland Eastern Shore. The Comptroller’s Office (1) may award a maximum of \$240,000 in tax credits in each year and (2) is required to adopt regulations to implement the tax credit application, approval, and monitoring processes.

The bill also decreases, from one year to three months, the length of time an entity must be incorporated in Maryland in order to qualify as a small or independent film entity under the film production activity tax credit program. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by \$228,000 annually in FY 2020 through 2024 due to credits claimed against the income tax. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues decrease in FY 2020 through 2024 to the extent credits are claimed against the corporate income tax. General fund expenditures increase by \$124,000 in FY 2020 due to implementation costs at the Comptroller’s Office. Future years reflect ongoing expenditures.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$228,000)	(\$228,000)	(\$228,000)	(\$228,000)	(\$228,000)
GF Expenditure	\$124,000	\$64,200	\$66,300	\$68,600	\$70,900
Net Effect	(\$352,000)	(\$292,200)	(\$294,300)	(\$296,600)	(\$298,900)

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

Local Effect: Local highway user revenues decrease in FY 2020 through 2024 as a result of any credits claimed against the corporate income tax. Local income tax revenues may increase minimally in FY 2020 through 2024 due to the requirement that taxpayers add back any amount of credit claimed. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: A qualified permanent endowment fund is a fund that is held in perpetuity by a qualifying institution of higher education and is used to benefit the institution or its students. Taxpayers seeking the tax credit must apply to the Comptroller for a tax credit certificate for the qualified donation planned in the tax year; applications are approved on a first-come, first-served basis until the maximum amount of authorized credits have been approved. The amount of the tax credit is 25% of a proposed donation and may not exceed the tax liability imposed in the year. Any unused amount of the credit can be carried forward to future tax years until the full amount of the excess is used. 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.

In each tax year, the Comptroller can award a maximum of \$60,000 in tax credits to each of the four institutions. If the maximum amount for an institution is not awarded in the tax year, the tax credits can be awarded for the institution in the next tax year. The tax credit terminates December 31, 2023.

Current Law:

Donations to Permanent Endowment Funds

No similar tax credit exists, although individuals who itemize their deductions and businesses can generally deduct charitable donations from income, which typically lowers federal and State income tax liability.

Film Production Activity Tax Credit

The Secretary of Commerce must reserve 10% of all film production activity tax credits in each fiscal year for qualified small or independent film entities.

A small or independent film entity is a film production entity that (1) is independently owned and operated; (2) is not a subsidiary of another firm; (3) is not dominant in its field of operation; and (4) does not employ more than 25 full-time individuals. In addition, the

entity must have (1) been incorporated in Maryland for at least one year; (2) Maryland residents comprising at least 40% of the workforce in the qualifying film production activity; (3) total direct costs incurred in the State of at least \$25,000; and (4) at least 50% of the film production activity occurring within the State.

State Revenues:

Donations to Permanent Endowment Funds

Tax credits may be claimed beginning in tax year 2019 through 2023. As a result, general fund revenues will decrease by \$228,000 annually in fiscal 2020 through 2024. This estimate assumes that the Comptroller’s Office awards the maximum authorized amount of credits in each year and tax credits are claimed against the personal income tax. It also reflects the requirement that taxpayers add back to their income the amount of tax credit claimed. To the extent tax credits are claimed against the corporate income tax, a portion of tax credits claimed will decrease TTF and HEIF revenues.

Film Production Activity Tax Credit

The bill alters the definition of a qualified small or independent film entity. The bill will not alter the overall fiscal impact of the tax credit program since it is expected that, under current law, Commerce will award the maximum amount of tax credits in each fiscal year.

State Expenditures: The Comptroller’s Office advises that it will incur additional costs beginning in fiscal 2020 as a result of hiring one revenue examiner and incurring operational and programming expenses. General fund expenditures will increase by an estimated \$124,000 in fiscal 2020, which reflects the bill’s July 1, 2019 effective date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. Operational expenses include development of an application, processing of applications, monitoring of eligibility, and issuance of certificates.

Position	1
Salary and Fringe Benefits	\$63,463
Operating Expenses	5,515
Programming Expenditures	<u>55,000</u>
Total FY 2020 Expenditures	\$123,978

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

Additional Information

Prior Introductions: HB 1665 of 2018 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510