

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1284 (Delegates Moon and Palakovich Carr)
 Ways and Means

State Tax Credits, Exemptions, and Deductions - Alterations and Repeal (Tax Modernization Act)

This bill (1) repeals specified State sales and use tax exemptions; (2) alters certain income tax credits for businesses; (3) repeals specified inheritance tax exemptions; and (4) alters certain tobacco tax exemptions and motor fuel vendor discounts. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: State revenues may increase by about \$12.0 million annually beginning in FY 2021. No significant impact on expenditures.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF/SF Rev.	\$12.0	\$12.0	\$12.0	\$12.0	\$12.0
Expenditure	0	0	0	0	0
Net Effect	\$12.0	\$12.0	\$12.0	\$12.0	\$12.0

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

Local Effect: Local highway user revenues may increase to the extent fewer business tax credits are claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary/Current Law:

Repeal of Sales and Use Tax Exemptions

The bill repeals the following State sales and use tax exemptions provided under current law for the sale of: (1) snack food from vending machines; (2) machinery, equipment, and fuel or other utilities used to produce bituminous concrete; (3) equipment that has a value of at least \$2,000 and is used by certain retail food vendors to make bread or baking goods; (4) precious metal bullion or coins with a sale price of greater than \$1,000; and (5) a right to occupy certain rooms or lodgings operated solely in support of a corporate or any other headquarters, training, conference, or awards facility or campus.

Chapters 603 and 604 of 2016 exempt from the sales tax a sale of construction material or warehousing equipment if the material or equipment is purchased by a person solely for use in a specified target redevelopment area in Baltimore County. The bill repeals the sales tax exemption for warehousing equipment.

Alters the Process of Awarding Tax Credits

Current law provides that a qualified film production entity that meets specified requirements and is approved by Commerce may receive a refundable credit under the film production activity tax credit. Chapter 390 of 2013 established a refundable tax credit for investments in qualified cybersecurity companies; the program terminates after fiscal 2023. For both of these programs, any amount of credits that is not awarded by Commerce in a fiscal year can be awarded in the next fiscal year. The bill deletes these provisions; any credits that are not awarded may not be awarded in the next year and in the case of the cybersecurity investment tax credit the appropriated funds will revert to the general fund.

Eliminates Refundability of Certain Tax Credits

Current law provides that under certain circumstances taxpayers can claim a refundable credit under the cybersecurity investment (program terminates after fiscal 2023); More Jobs for Marylanders; One Maryland; and Aerospace, Electronics, or Defense Contract tax credits (program terminates after tax year 2020). The bill specifies that these tax credits are nonrefundable and can be carried forward to other tax years as specified by the bill.

Alters Tax Credit Eligibility

Current law provides that an income tax credit can be claimed for the cost of registering in Maryland a tractor-trailer (class F vehicle) that is titled and registered in the State.

Individuals and corporations may claim the credit through tax year 2019. The bill limits the tax credit eligibility to individuals and corporations that have a Maryland headquarters.

The employer security clearance costs tax credit program allows a State income tax credit for certain security clearance administrative expenses and for the construction and equipment costs to construct or renovate a sensitive compartmented information facility located in the State. Tax credits may be claimed through tax year 2021. The bill limits tax credit eligibility to specified small businesses.

Eliminates Inheritance Tax Exemptions

The bill repeals the exemptions against the inheritance tax for (1) donations to nonprofits conducting a substantial part of all of its activities within the District of Columbia and (2) the income, including gains and losses, on probate assets after the decedent's date of death.

Other Provisions

Current law provides that a licensed gasoline dealer and special fuel seller can claim a credit equal to 0.5% of the first 10 cents per gallon of motor fuel sold as a vendor discount for the cost of collecting the tax. The vendor discount is in lieu of an allowance for the loss of fuel due to evaporation, shrinkage, and handling. The bill repeals these vendor discounts.

Current law provides that the tobacco tax does not apply if a consumer brings into the State, or purchases from a U.S. Armed Forces installation, five or fewer cartons of cigarettes or other tobacco product (OTP) with a value of \$100 or less. The bill eliminates the exemption for OTP and decreases to one carton the exemption for cigarettes.

State Fiscal Effect: The bill (1) repeals specified sales and use tax exemptions; (2) alters certain income tax credits for businesses; (3) repeals specified inheritance tax exemptions; and (4) alters certain tobacco tax exemptions and motor fuel vendor discounts. As a result, State revenues may increase by \$12.0 million annually beginning in fiscal 2021.

This estimate reflects the impact of repealing the State sales and use tax exemptions for the sale of (1) snack food from vending machines; (2) machinery, equipment, and fuel or other utilities used to produce bituminous concrete; (3) equipment that has a value of at least \$2,000 and is used by certain retail food vendors to make bread or baking goods; (4) precious metal bullion or coins with a sale price of greater than \$1,000; and (5) a right to occupy certain rooms or lodgings operated solely in support of a corporate or any other headquarters, training, conference, or awards facility or campus. The estimate also reflects the impact of repealing the motor fuel vendor discounts.

The estimate does not reflect revenue impacts from other provisions, as the fiscal impacts of these provisions in certain cases are unknown, negligible, or generally expected to only impact the timing of revenue losses. Accordingly, revenue gains may be greater than estimated.

Small Business Effect: Small businesses may be negatively impacted from the alteration or elimination of certain business tax preferences and elimination of the specified motor fuel vendor discount. Small businesses may benefit from limiting eligibility for the employer security clearance costs tax credit program to small businesses.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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mr/jrb

Analysis by: Robert J. Rehrmann

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