

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 969 (Allegany County Delegation and Garrett County Delegation)

Ways and Means

Public Service Company Franchise Tax - Credit for Purchase of Maryland-Mined Coal - Extension

This bill extends the Maryland-mined coal tax credit through tax year 2030. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund revenues decrease by up to \$3.0 million annually in FY 2022 through 2031. This represents a \$30.0 million revenue decrease over a 10-year period. State expenditures are not affected.

| (\$ in millions) | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenue | \$0 | (\$3.0) | (\$3.0) | (\$3.0) | (\$3.0) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$0.0 | (\$3.0) | (\$3.0) | (\$3.0) | (\$3.0) |

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Public service companies in Maryland can claim a \$3 per ton credit for the amount of Maryland-mined coal purchased in a calendar year. This nonrefundable tax credit can be claimed against the public service company franchise tax. Certain co-generators and electricity suppliers that are not subject to the public service company

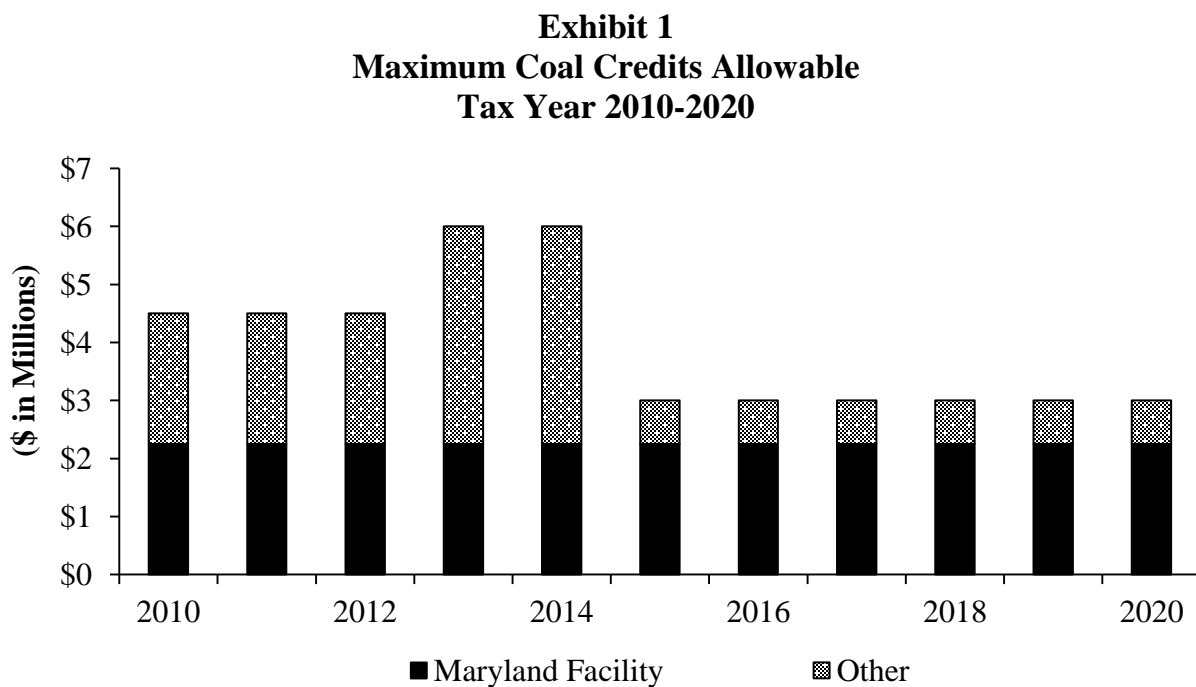
franchise tax may also claim a nonrefundable credit of \$3 per ton against the State income tax.

The sales and use tax does not apply to a sale of coal, firewood, heating oil, or propane gas or similar liquefied gas for use in residential property that contains no more than four units, cooperative housing, condominiums, or other similar residential living arrangements.

The tax credit can be claimed through tax year 2020.

Background: Chapter 792 of 1988 established the tax credit for Maryland-mined coal purchased by public service companies, with a termination date of June 30, 1991. Subsequent legislation expanded and extended the credit; Chapters 247 and 248 of 2006 limited the maximum annual amount of credits that could be awarded beginning with tax year 2007 and terminated the credit in tax year 2021. The Budget Reconciliation and Financing Act of 2009 (Chapter 487) further reduced the tax credits that could be claimed in tax years 2009 through 2012. Since calendar 2015, a maximum of \$3.0 million in credits can be claimed in each year.

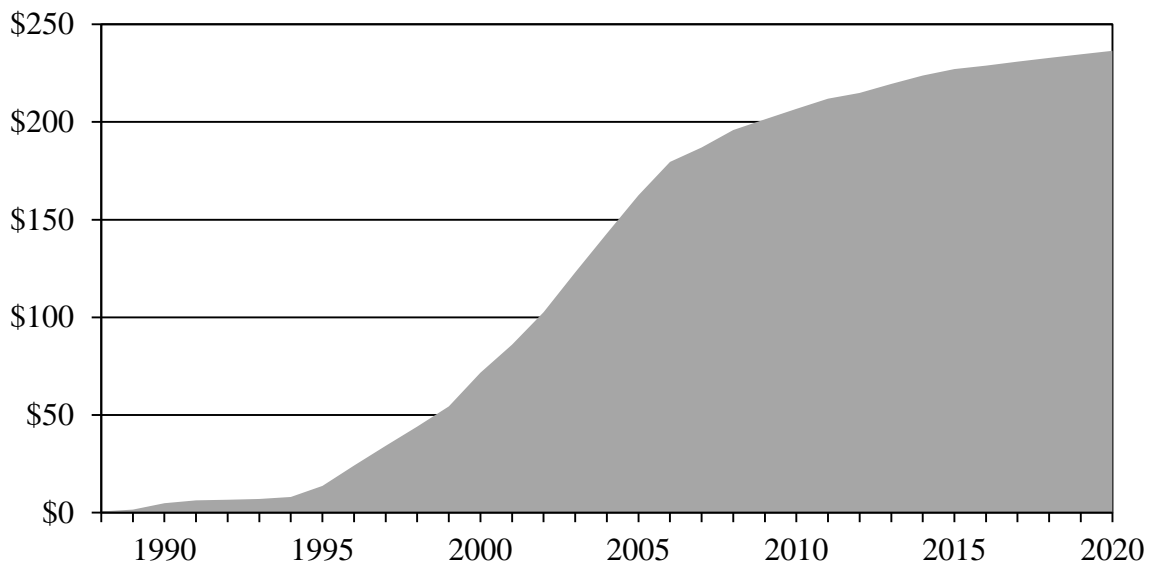
Beginning with tax year 2007, the State Department of Assessments and Taxation (SDAT) is required to reserve \$2.25 million of the annual credits for purchases of Maryland-mined coal that will be used in a Maryland facility. **Exhibit 1** shows the maximum amount of credits that SDAT may award in each calendar year, including the amount that must be reserved for purchases of coal that will be used in a Maryland facility.



Source: State Department of Assessments and Taxation; Department of Legislative Services

In tax year 2015, SDAT approved the maximum \$3.0 million in tax credits; however, an average of \$1.8 million in credits have been approved in subsequent tax years. Through the termination of the credit, a total of \$171.5 million (\$236.4 million adjusted for inflation) in public service company franchise tax credits will be claimed, plus an additional amount of unknown credits against the corporate income tax. **Exhibit 2** shows the cumulative amount of credits claimed against the public service company franchise tax.

Exhibit 2
Cumulative Credits Claimed
Tax Year 1989-2020
(\$ in Millions)



Note: Credits are in constant 2020 dollars and do not include additional amounts claimed against the corporate income tax. In recent years, no or minimal credits have been claimed against the corporate income tax.

Source: State Department of Assessments and Taxation; Department of Legislative Services

State Fiscal Effect: The bill extends the Maryland-mined coal tax credit through tax year 2030. Under current law, up to \$3.0 million in tax credits can be issued each year. In recent years, the total amount of tax credits claimed has been below the maximum authorized amount as shown in **Exhibit 3**. All of the credits in recent years have been claimed against the public service company franchise tax. Due to the tax credit extension under the bill, general fund revenues decrease by up to \$3.0 million annually in fiscal 2022 through 2031. This represents a \$30.0 million revenue decrease over a 10-year period. To the extent that fewer credits are awarded, the revenue decrease will be less than estimated.

Exhibit 3
Maryland-Mined Coal Tax Credit – Actual Credits Claimed

| <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> |
|----------------|----------------|----------------|----------------|
| \$3,000,000 | \$1,626,200 | \$1,927,600 | \$1,841,800 |

Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: None.

Designated Cross File: SB 865 (Senator Edwards) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 17, 2020
mr/hlb

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