

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 186 (Chair, Budget and Taxation Committee)(By Request -
 Departmental - Commerce)

Budget and Taxation

Ways and Means

Economic Development – Job Creation Tax Credit – Credit for Hiring Veterans

This departmental bill (1) extends the termination date for the job creation tax credit to January 1, 2027; (2) establishes an enhanced job creation tax credit for the hiring of a qualified veteran; and (3) extends program eligibility to small businesses who hire a qualified veteran. The bill also repeals the Hire Our Veterans Tax Credit. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund revenues decrease by \$3.3 million annually beginning in FY 2022 as a result of tax credits being claimed against the corporate and personal income tax. Transportation Trust Fund (TTF) revenues decrease by \$0.5 million and Higher Education Investment Fund (HEIF) revenues decrease by \$0.2 million annually beginning in FY 2022. TTF expenditures decrease by \$71,000 in FY 2022 and by \$50,000 in FY 2026 due to a reduction in local highway user revenue grants.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$3.3)	(\$3.3)	(\$3.3)	(\$3.3)	(\$3.3)
SF Revenue	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)
SF Expenditure	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
Net Effect	(\$3.9)	(\$3.9)	(\$3.9)	(\$4.0)	(\$4.0)

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

Local Effect: Local highway user revenues decrease by \$71,000 in FY 2022 and \$50,000 in FY 2026. Local expenditures are not affected.

Small Business Effect: The Department of Commerce has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: A business that meets the existing qualifications of the program may claim an enhanced tax credit for hiring a qualified veteran. The amount of the credit is equal to \$4,000 for each qualified veteran hired and \$6,000 if the veteran is employed at a facility located in a revitalization area.

A small business that hires at least one qualified veteran employee can claim an income tax credit of \$2,500 for each qualified veteran hired. A small business may not claim the credit for more than five qualified veteran employees in a taxable year. The veteran must fill the position for at least one year, and a small business may not claim the credit for a qualified veteran employee who replaces a laid-off employee or an employee who is on strike.

A small business means an individual, partnership, limited partnership, limited liability partnership, a limited liability company, or a corporation that employs 50 or fewer full-time employees. A qualified veteran is an individual who was honorably discharged or released under honorable circumstances from active military, naval, or air service as defined in 38 U.S.C. 101 and is a qualified veteran for purposes of the federal Work Opportunity Tax Credit.

Current Law/Background:

Job Creation Tax Credit

The job creation tax credit provides a tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. Businesses must be primarily engaged in a qualifying business activity. The new jobs must be full-time, permanent, filled, located in Maryland, and pay at least 120% of the State minimum wage. A business must notify Commerce of its intent to seek certification before hiring employees. A final application can be submitted to Commerce after a minimum number of jobs have been created and the jobs have been filled for at least 12 months.

An eligible business must create within a 24-month period at least 60 jobs. The job creation threshold is lowered to (1) 25 if the new jobs are created within a State priority funding area and (2) 10 if the jobs are created within a county with (a) an annual average employment of less than 75,000 or (b) a median household income that is less than two-thirds of the statewide median household income.

The credit is equal to \$3,000 for each new job. An enhanced credit of \$5,000 can be claimed if the jobs are created within a revitalization area.

Commerce can issue in each year a maximum of \$1.0 million in tax credits to a single taxpayer and a total of \$4.0 million in tax credits on a first-come, first-served basis.

Hire Our Veterans Tax Credit

Chapter 180 of 2017 created a tax credit against the State income tax for a small business that hires a qualified veteran employee. A small business may claim an income tax credit that may not exceed 30% of up to the first \$6,000 of wages paid to the qualified veteran employee during the first year of employment. A small business may not claim the credit for more than five qualified veteran employees in a taxable year. Commerce may annually award a maximum of \$500,000 in credits. Since the inception of the program in tax year 2017, the department has certified 9 employers who received tax credits totaling \$21,600.

State Revenues: The bill extends to January 1, 2027, the termination date of the job creation tax credit and establishes tax credits for hiring qualified veterans. A maximum of \$4.0 million in job creation tax credits can be awarded in each tax year. As a result, general fund revenues will decrease by \$3.3 million annually beginning in fiscal 2022. TTF revenues will decrease by \$525,000 and HEIF revenues will decrease by \$216,000 annually beginning in fiscal 2022. **Exhibit 1** shows the impact of the bill in fiscal 2022 through 2026.

Exhibit 1
Projected State Fiscal Impact
(\$ in Millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
General Fund	(\$3,259,000)	(\$3,259,000)	(\$3,259,000)	(\$3,259,000)	(\$3,259,000)
HEIF	(216,000)	(216,000)	(216,000)	(216,000)	(216,000)
TTF	(525,000)	(525,000)	(525,000)	(525,000)	(525,000)
Total	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)
TTF Expenditures	(\$71,000)	(\$71,000)	(\$71,000)	(\$50,000)	(\$50,000)

HEIF: Higher Education Investment Fund

TTF: Transportation Trust Fund

Beginning in tax year 2021, the bill repeals the Hire Our Veterans Tax Credit. A portion of the revenue loss shown in Exhibit 1 will be offset as a result of the tax credit repeal. The revenue savings, however, is expected to be minimal.

State Expenditures: A portion of TTF revenues are used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate tax revenues results in a 13.5% decrease in TTF expenditures to local governments (9.6% beginning in fiscal 2025). Accordingly, TTF expenditures decrease by \$71,000 in fiscal 2022 and by \$50,000 in fiscal 2026 as shown in Exhibit 1.

Local Revenues: Local governments receive a portion of corporate income tax revenues as local highway user revenues through capital transportation grants. Local highway user revenues decrease by \$71,000 in fiscal 2022 and by \$50,000 in fiscal 2026.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - January 26, 2021
rh/jrb Third Reader - March 22, 2021

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Economic Development – Job Creation Tax Credit – Credit for Hiring Veterans

BILL NUMBER: SB 186

PREPARED BY: Michael Siers

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation combines the state’s “Hire Our Veterans” tax credit with the Job Creation Tax Credit (JCTC). The Hire Our Veterans tax credit, designed to encourage businesses to hire Maryland’s veterans, is undersubscribed and does not have full awareness by small businesses. By merging this tax credit in as part of the more popular JCTC, it will hopefully encourage more small businesses to take advantage of the benefits that come from hiring Maryland’s veterans. The proposed legislation should lead to greater hiring of Maryland’s highly qualified veterans, which should in turn lead to the companies having higher productivity and a decrease in costs through a lower tax burden. However, the increase in benefits is likely to be minimal compared to administering the two programs separately.