

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1096 (Delegate Feldmark)
Ways and Means

Economic Development Tax Credit Programs – Qualified Position and Qualified Employee – Definitions

This bill alters the requirements that must be met in order for a business to claim the employment income tax credits under the One Maryland tax credit, More Jobs for Marylanders program, and Enterprise Zone program. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: State revenues may increase, likely beginning in FY 2024, due to the altered eligibility requirements for the tax credits. General fund expenditures increase by \$61,500 in FY 2023 and by \$115,800 in FY 2027 due to implementation costs at the Department of Commerce. General fund expenditures may decrease, likely beginning in FY 2025, due to a reduction in More Jobs for Marylanders income tax credit appropriations.

Local Effect: Local highway user revenues may increase beginning in FY 2024 due to a reduction in tax credits claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The One Maryland tax credit, More Jobs for Marylanders program, and Enterprise Zone program allow a business that meets program requirements to claim an income tax credit with respect to each qualified position or employee reported by the business. Beginning on October 1, 2022, the bill requires that a qualified position

(1) provide career advancement training; (2) afford the employee the right to collectively bargain for wages and benefits; (3) provide paid leave; (4) is considered covered employment for purposes of unemployment insurance benefits; (5) entitles the employee to workers' compensation benefits; (6) offer employer-provided health insurance benefits with monthly premiums that do not exceed 8.5% of the employee's net monthly earnings; and (7) offer retirement benefits.

For the More Jobs for Marylanders program, the bill requires that a qualified position reported by a manufacturer must pay at least 150% of the State minimum wage. The minimum pay requirements under current law that apply to qualified positions within federal opportunity zones are not altered.

For the other programs, a qualified position must pay at least:

- for an employee classification for which there is a prevailing wage rate, the prevailing wage; or
- for any other employee classification, 150% of the State minimum wage.

A qualified position must meet other specified requirements, including a requirement that the One Maryland tax credit can be claimed only if the qualified position is newly created because a business facility begins or expands in one location in a Tier I county.

Current Law:

One Maryland Tax Credit

Chapter 303 of 1999 established the One Maryland economic development tax credit program to assist certain businesses that establish or expand a facility located within economically distressed counties (Tier I county). To qualify, a business must be primarily engaged in a qualifying activity or operate either a central administrative office or a company headquarters (other than the headquarters of a professional sports team). The eligible project must be located in a priority funding area. In Allegany, Garrett, Somerset, and Wicomico counties, a project may also be located within a federal opportunity zone. In addition, the project must create at least 10 jobs and result in at least \$500,000 of capital expenditures. The jobs must be filled for at least 12 months, be full-time, and pay 120% of the State minimum wage.

More Jobs for Marylanders Program

Chapter 149 of 2017 established the More Jobs for Marylanders program, which is administered by Commerce and provides State income tax, sales tax, property tax, and fee benefits to certain businesses that create and maintain a minimum number of qualified jobs.

Eligibility for specific benefits is determined by the type of business, its location, and whether or not it is a new business. Generally, a business must operate or conduct a trade or business that is primarily engaged in manufacturing, or else be located in a federal opportunity zone, and not be otherwise excluded by law. A business within a Tier I Area must create at least 5 qualified positions, and a business within a Tier II Area must create at least 10 qualified positions – additional requirements apply to both areas.

Commerce may certify that a project meets program requirements and, therefore, may be eligible for 10-year tax benefits, through June 1, 2022.

Enterprise Zone Income Tax Credit

The Enterprise Zone tax program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. Businesses located within an enterprise zone are eligible for local property tax credits and State income tax credits.

The income tax credit is based on the wages paid during the taxable year to each qualified employee and vary in value and length of time depending on whether the employee is certified by the Maryland Department of Labor as being economically disadvantaged and if the business is located in a focus area. There are enhanced income tax credits available for businesses that are also located in opportunity zones.

To qualify for the credit, a business must hire at least one employee who (1) is hired after the business was located in the enterprise zone or after the enterprise zone was designated; (2) is employed by the business for at least 35 hours per week for 6 months (or 12 months in a focus area) before or during the taxable year in which the credit is taken; (3) spends at least 50% of the workday either in the enterprise zone or on an activity related to the enterprise zone; (4) is hired to fill a new position; and (5) earns at least 150% of the federal minimum wage. In addition, a business must be certified by the local enterprise zone administrator in order to be eligible to receive the income tax credit.

Tier I Counties

Tier I counties are counties that qualify under income or unemployment standards for certain Commerce programs, including the More Jobs for Marylanders program and the One Maryland program.

Prevailing Wage Law

Contractors and subcontractors working on eligible public works projects in Maryland must pay their employees the prevailing wage rate, subject to various specified conditions and exclusions.

State Revenues: The bill alters the requirements of the tax credit programs beginning with tax year 2022. General fund, Transportation Trust Fund, and Higher Education Investment Fund revenues may increase beginning in fiscal 2024 to the extent the new requirements decrease One Maryland and enterprise zone income tax credit claims. General fund expenditures may decrease beginning in fiscal 2025 due to a reduction in income tax credit appropriations for the More Jobs for Marylanders program.

State Expenditures: The Department of Legislative Services estimates that Commerce requires one tax compliance officer to verify that tax credit applications meet the requirements specified by the bill. Therefore, general fund expenditures increase by \$61,500 in fiscal 2023. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$54,416
Other Operating Expenses	<u>7,078</u>
Total FY 2023 Expenditures	\$61,494

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

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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