

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 442 (Delegate Tomlinson)
 Ways and Means

Income Tax - Subtraction Modification - Qualified Broadband Grants

This bill authorizes individual and corporate taxpayers to claim a subtraction modification against Maryland income tax for the amount of any qualified federal, State, or local broadband grant awarded to the taxpayer during the taxable year. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: In FY 2024, general fund revenues decrease by an estimated \$4.5 million, Higher Education Investment Fund revenues decrease by an estimated \$0.4 million, and Transportation Trust Fund (TTF) revenues decrease by an estimated \$1.0 million. Also in FY 2024, general fund expenditures increase by an estimated \$0.1 million and TTF expenditures for local highway user grants decrease by an estimated \$0.2 million. Future years reflect ongoing revenue and expenditure effects.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$4.5)	(\$6.2)	(\$1.6)	\$0	\$0
SF Revenue	(\$1.4)	(\$1.9)	(\$0.5)	\$0	\$0
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
SF Expenditure	(\$0.2)	(\$0.3)	(\$0.1)	\$0	\$0
Net Effect	(\$5.8)	(\$7.9)	(\$2.0)	\$0.0	\$0.0

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

Local Effect: Local highway user revenues decrease by an estimated \$500,000 in FY 2024 through 2026. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: For purposes of the subtraction modification, a “qualified broadband grant” is any federal, state, or local grant for broadband infrastructure and made for the purpose of broadband deployment.

Current Law: The federal American Rescue Plan Act of 2021 (ARPA) and Infrastructure Investment and Jobs Act (IIJA) included significant funding for broadband programs. Notably, the IIJA includes more than \$60 billion for broadband programs; the largest program is the Broadband Equity, Access, and Deployment Program, which provides \$42.5 billion nationally for grants to states allocated by formula, with a \$100 million state minimum. The State has designated approximately \$400 million in federal ARPA funds for the purpose of broadband expansion and anticipates more than \$100 million in federal broadband funding from the IIJA.

State law does not provide for a subtraction modification for broadband infrastructure grant income, as contemplated under the bill. However, federal legislation has been introduced to exempt from federal income tax specified broadband grants made for purposes of broadband deployment.

State/Local Revenues: Exhibit 1 summarizes the bill’s estimated effect on State and local revenues in fiscal 2024 through 2028. As shown in the exhibit, State revenues decrease by an estimated \$16.1 million in fiscal 2024 through 2026, as a result of subtraction modifications claimed against the Maryland income tax, including \$12.3 million in general fund revenue losses. A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues). Thus, local highway user revenues decrease by an estimated \$0.2 million in fiscal 2024.

This estimate assumes that the bill’s income tax subtraction modification (1) primarily affects corporate taxpayers and (2) reduces Maryland corporate taxable income by approximately \$95 million in tax year 2023 and \$100 million in tax year 2024, based on the amount of broadband infrastructure funding the State is expected to receive under ARPA and IIJA in 2023 and 2024. However, actual revenue losses may differ from this estimate to the extent that (1) affected grantees are not subject to the corporate income tax, or are otherwise exempt from State income tax; (2) the timing of grant awards differs from the above assumption; and/or (3) additional grant funds from State or local sources are eligible for the subtraction modification, such as potential local matching grant funds.

Exhibit 1
Effect on State and Local Revenues
Fiscal 2024-2028
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State Revenues					
General Fund	(\$4.5)	(\$6.2)	(\$1.6)	\$0.0	\$0.0
HEIF	(\$0.4)	(\$0.5)	(\$0.1)	\$0.0	\$0.0
TTF	(\$1.0)	(\$1.5)	(\$0.4)	\$0.0	\$0.0
Total	(\$5.9)	(\$8.1)	(\$2.1)	\$0.0	\$0.0
Local Revenues					
LHUR	(\$0.2)	(\$0.3)	(\$0.1)	\$0.0	\$0.0

HEIF: Higher Education Investment Fund
LHUR: local highway user revenues
TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

State Expenditures: General fund expenditures for the Comptroller’s Office increase by an estimated \$50,000 in fiscal 2024 only for one-time changes to the Comptroller’s tax systems. TTF expenditures for local highway user revenue grants decrease by an estimated \$156,000 in fiscal 2024, \$261,000 in fiscal 2025, and \$77,000 in fiscal 2026.

Small Business Effect: Small business Internet service providers in Maryland may be meaningfully affected to the extent the bill results in reduced income tax liability for these providers.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 408 (Senator Ready, *et al.*) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Housing and Community Development; Department of Legislative Services

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