MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

MARCH 1, 2017

Job Creation Tax Credit Needs Updates

Position Statement Supporting House Bill 1052

Given before the House Ways and Means Committee

Since the mid 1990s, the number of Maryland state business tax credits has increased significantly. Given the wide range of eligibility requirements, specific goals and implementation rules, data-based evaluation is critical to determining which credits work and how they can be improved. Since the state created the Tax Credit Evaluation Committee in 2012, the committee, with assistance from the Department of Legislative Services, has shed light on the mixed results of state business tax credits. Their analysis indicates the Job Creation Tax Credit would benefit greatly from clearer reporting standards, expanded eligibility for rural areas and a limit on total credits issued per year.[i] For these reasons, the Maryland Center on Economic Policy supports House Bill 1052.

The Job Creation Tax Credit was created in 1996 to encourage businesses to establish or expand facilities in Maryland. Currently businesses are required to create at least 60 new jobs in a two-year period to be eligible for the credit. The value of the credit depends on the number of jobs created, the wages of those jobs and the geographic location, favoring designated revitalization areas. In recent years an average of 50 businesses have claimed about $500,000 in job creation tax credits annually.[ii]

Eligibility requirements favor large businesses, many of whom likely would expand with or without the credit. Just ten large businesses claimed more than half of all the credits that have been issued.[iii] Additionally, six rural counties had no businesses certified for credits for fiscal year 2016.[iv] Making the credit available to companies creating a minimum of ten jobs in areas with populations below 50,000 would enable the credit to reach underserved areas and help smaller businesses grow. Capping total credits amounts annually would ensure that expanding the credit in this way does not take too much money away from other essential state priorities.

Currently, the Department of Commerce is required to certify that a business meets program guidelines but not required to certify the value of the credit, leaving room for error.[v] Requiring the Department of Labor, Licensing and Regulation (DLLR) to verify the credit amount would solve this problem. Requiring DLLR to submit a report on each business receiving a credit's history in the state, total number of employees and number of years in business would make it easier to evaluate the true impact of credits granted. The same is true of requiring the Maryland Insurance Administration to issues similar reports about insurers claiming the credit.

Research shows that job creation tax credits can have a modest positive impact as policy tools, if used correctly. However, this hinges on the design and implementation of a particular credit.[vi] The recent evaluation of the Job Creation Tax Credit shows clear steps Maryland can take for improvement.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee give a favorable report to House Bill 1052.

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[i] *Draft Evaluation of the Job Creation Tax Credit*. November 2016. Department of Legislative Services. Accessed February 27, 2017. http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/draft-evaluation-of-the-job-creation-tax-credit.pdf.

[ii] *Senate Bill 843 Fiscal and Policy Note*. Department of Legislative Services, Maryland General Assembly 2016 Session. Accessed February 27, 2017. http://mgaleg.maryland.gov/2016RS/fnotes/bil_0003/sb0843.pdf.

[iii] Draft Evaluation of the Job Creation Tax Credit, pg. 32.

[iv] Ibid, pg. viii.

[v] Ibid, pg. ix.

[vi] Ibid, pg. vii.