

DIVISION OF ECONOMIC POLICY, RESEARCH AND
LEGISLATIVE AFFAIRS

JOB CREATION TAX CREDIT

ANNUAL STATUS REPORT
FISCAL YEAR 2005
ARTICLE 83A

SECTION 5-1102(h)

Submitted by:

Maryland Department of Business and Economic
Development

December 2005

**STATUS REPORT
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JOB CREATION TAX CREDIT OVERVIEW

The Job Creation Tax Credit (JCTC) was enacted in 1996 to provide income tax credits to businesses that create new jobs in Maryland. The purpose of the program is to attract new businesses to locate in Maryland and to encourage existing businesses to expand. It can be used by companies large and small, anywhere in the State. It rewards only those companies that actually meet job creation targets and provides greater incentives to companies that locate in priority funding areas and revitalization areas. The Department of Business and Economic Development (DBED) uses the JCTC to market the State as a location that is competitive with other states, most of which have similar job creation tax credits.

Under the JCTC program, a business that creates a minimum number of new jobs may qualify for income tax credits of 2.5 percent of annual wages up to \$1,000 per new job. If the business locates in a revitalization area (enterprise zone, empowerment zone or Department of Housing and Community Development designated neighborhood), the credit increases to 5 percent of annual wages up to \$1,500 per new job.

To qualify for the Job Creation Tax Credit, a business must do the following:

- Declaration of Intent: A business may not claim any employees hired prior to the business notifying DBED of its intent to seek certification for the Job Creation Tax Credit.
- Certification: A business must be certified as a qualified business entity eligible for the tax credit. To be certified, a business must submit applications to DBED.
- Job Creation Minimums: The business must create 60 new, full-time jobs at the expanding or new facility during a 24-month period. In designated “priority funding areas” (as defined by the Job Creation Tax Credit statute), the minimum is 25. Outside “priority funding areas,” the requirement may be reduced to as few

as 30 new jobs if the aggregate annual salary of the new employees exceeds \$2.44 million (2005).

- Other General Requirements:
 - The new or expanded facility must be engaged in an eligible activity as defined by the statute.
 - Only new jobs that pay more than 150 percent of the federal minimum wage are eligible for the credit.
 - The expansion or establishment of a business must be at a single location in Maryland. A single firm may have more than one eligible location, provided that each is certified and meets the requirements of the statute.
 - The job must be filled for 12 months before it is qualified for the tax credit.

JOB CREATION TAX CREDIT ACTIVITY

The JCTC is DBED's most popular tax credit because it is available anywhere in the State in a variety of targeted industry sectors. In FY 2005 (July 1, 2004 through June 30, 2005), DBED issued 29 preliminary certificates of eligibility and eight final certificates (Appendix A) of eligibility for the JCTC. Businesses submitting preliminary applications projected creating 3,465 new jobs during the next five years on their preliminary applications. This is an average of 119 jobs per facility. The total wages projected were \$150.1 million or an average of about \$43,300 per job. In FY 2005, businesses that submitted final applications created 575 new jobs in Maryland with total wages of \$22.7 million. This is an average of about \$39,500 per new job. In addition, DBED received 89 intent letters from businesses that plan to qualify for the Job Creation Tax Credit in the future.

Since its inception in 1996 through FY 2005, the Department has certified approximately 302 businesses for the Job Creation Tax Credit.¹ In terms of actual job creation, the Department has required businesses submit a final application since 2001 to

¹ Prior to 2001, DBED did not require businesses to report the number of actual jobs created, only projected jobs. For this reason, DBED cannot report whether all 302 businesses actually created the jobs they projected on their application.

report on actual jobs created. Sixty-one facilities have reported creating 6,975 jobs with an average payroll of \$40,247.

Businesses in 19 counties in the State of have applied for the JCTC. The chart below shows the activity by region:

Region	Projected Jobs	Actual Jobs
Greater Baltimore	11,584	5,080
Suburban Maryland	25,340	1,237
Southern Maryland	760	0
Eastern Shore	2,258	288
Western Maryland	3,105	370
Total	43,047	6,975

*Since 2001, DBED has required businesses to report actual jobs as well as projected jobs.

TAX CREDITS EARNED

DBED issues a business a final certificate of eligibility when it meets the minimum requirements of the statute. While the business reports on the application the number of jobs it created, DBED does not know if the business ever claims credits for those jobs on its tax return. There are a number of reasons why a business may not claim the JCTC including insufficient tax liability, loss of jobs, etc. According to data provided by the Comptroller of Maryland, for tax years 1996-2004 (tax year 2004 does not include all tax returns filed for 2004 because of allowed extensions), businesses have earned about \$5.5 million in job creation tax credits. Most of the \$5.5 million was earned in tax years 1999 and 2000. For tax year 1999 companies earned approximately \$1.59 million and for tax year 2000 companies earned about \$1.64 million.

While the tax credits will cause a reduction in State revenues, DBED believes this reduction is offset by the positive economic impacts of the new jobs created in Maryland. Businesses certified for the JCTC since 2001 have created about 6,975 jobs with an aggregate payroll of \$270.1 million. The payroll generates approximately \$10.1 million in personal income revenue for the State annually, while the credit is a one-time credit of \$1,000 or \$1,500 per new job.

Appendix A: Businesses Receiving Final Certification of Eligibility in FY 2005

Customer Name	Actual Jobs Created
Barton-Cotton, Inc	25
Ahold USA Holdings, Inc.	92
Digital Receiver Technology Inc	60
*Global Payments, Inc	201
Stout, Causey & Horning, P.A.	37
Morgan Stanley & Co Inc	51
White Marsh Distribution, LLC	109
Total	575

*Received two Final Certificates of Eligibility in FY 2005 for two different tax years.