

More Jobs for Marylanders Tax Credit Reserve Fund

ANNUAL REPORT

Pursuant to Tax General Article §10-741(e)

Submitted by:

Maryland Department of Commerce

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INTRODUCTION

Maryland is home to over 113,000 manufacturing jobs and growing. They work in traditional and high-tech sectors throughout the State and produce a range of exportable products including metals and minerals, machinery and equipment, food and beverage, pharmaceutical and medicine, and aerospace and electronics. These products account for \$30.9 billion of the State's total gross product, and the average employee makes almost \$89,000 per year.

The growth of manufacturing jobs in the State is made possible by effective incentives such as the More Jobs for Marylanders Program (Program). As this report will show, this Program has attracted 166 projects and created over 3,600 qualified positions as of the date of this report. These positions are full-time, make an average wage of at least \$80,000 per year, and receive ongoing job training and/or post-secondary tuition reimbursement. Additionally, the Program supports the creation of non-manufacturing jobs in federal Opportunity Zones where the annual wage must be at least \$50,000 per year.

OVERVIEW

Chapter 149, Acts of 2017, established the Program within the Department of Commerce (Commerce) to incentivize and encourage manufacturers to create jobs in areas of Maryland that need jobs the most. The Program established (1) an income tax credit to certain new or existing qualifying manufacturers that create a minimum number of jobs; (2) additional incentives to qualifying new manufacturing businesses that create a minimum number of jobs within a designated county; and (3) additional Section 179 expensing and bonus depreciation as allowed under federal income tax law for all manufacturers located in the State. Program benefits could be claimed for up to 10 consecutive years by new and existing qualified business entities in "Tier 1" or "Tier 2" counties in Maryland. To be eligible, a manufacturer had to enroll prior to June 1, 2022, create the minimum required number of jobs and meet other Program requirements.

Chapter 584, Acts of 2018, changed the income criteria in the definition of a Tier 1 County to include counties with median household income for the most recent 24-month period equal to or less than 75 percent of the median household income of the State. As a result, the following counties qualify as Tier 1 Counties as of July 1, 2018:

- Baltimore City;
- Allegany County;
- Caroline County;
- Dorchester County;
- Garrett County;
- Kent County;
- Somerset County;
- Washington County;
- Wicomico County; and
- Worcester County.

Tier 2 counties that have been promoted for Tier 1 benefits, per the authority of the Secretary of Commerce are:

- Baltimore County;
- Cecil County; and
- Prince George's County.

All counties not referenced previously are considered Tier 2 counties.

Chapter 211, Acts of 2019, expanded the Program by allowing businesses that locate or expand in Opportunity Zones to be eligible for Tier 1 tax and fee benefits even if the businesses are not in the manufacturing industry. Nonmanufacturing companies located in an Opportunity Zone must pay a minimum annual salary of at least \$50,000 in order to qualify.

Chapter 136 of 2022 heightened eligibility requirements and limited benefits available to manufacturing and non-manufacturing businesses enrolled on or after June 1, 2022 and before June 1, 2024. This included raising the minimum wage requirement; eliminating real property tax credit, sales and use tax refund and filing fee waiver; reducing the number of benefit years for projects in Tier 2 areas from 10 years to 5 years, and decreasing the income tax credit percentage from 5.75% to 4.75% of the aggregate wages of the qualified positions.

As required by statute, Commerce developed an application process for companies that plan to participate in the Program. To begin the process a company submits a Notice of Intent (NOI) to Commerce. Upon receipt of a NOI, Commerce provides the business with an application to enroll its project in the Program. Upon receipt of the completed Project Enrollment Application, Commerce certifies the company as a Qualified Business Entity and the company is then eligible to apply for the available tax credits.

Businesses must also submit an Initial Income Tax Application that includes a list of projected jobs and wages for that year. Commerce calculates a maximum credit for the business for that benefit year and issues the company an Initial Income Tax Credit Certificate (Initial Certificate). The amount of credit on the Initial Certificate is reserved for the business. After designated positions are filled for a period of 12 months, the business applies for the Final Income Tax Credit Certification (Final Certificate). The amount of credit on the Final Certificate is the amount of credit the business may claim for that benefit year and this credit cannot exceed the amount reserved on the Initial Certificate.

Commerce began accepting NOIs for the Program on June 1, 2017. As of the sunset of the program on May 31, 2024, Commerce issued 170 Enrollment Certificates. These enrollments represent over 14,000 new jobs through FY 2029.

Businesses that submitted NOIs but did not enroll before June 1, 2022 may participate in the program as modified by Act 136 of 2022 if they were enrolled before June 1, 2024. Businesses that submitted NOIs but did not enroll before June 1, 2024 are not eligible to participate in the program.

Throughout this report, the level of activity for the program is accounted for by projects, not companies because there are instances where a company may have more than one eligible location, or has more than one expansion project at the same location.

BENEFITS FOR BUSINESSES ENROLLED BEFORE JUNE 1, 2022

The program provides incentives tied to job creation for a 10-year period.

1. New businesses in Tier 1 jurisdictions receive a refundable State income tax credit (5.75% of the wage per new position); State Property Tax Credit (\$0.112 per \$100 assessed); refund of Sales and Use Tax; and waiver of SDAT fees for the creation of 5 or more new jobs.
2. Existing businesses in Tier 1 and Tier 2 jurisdictions receive a refundable State income tax credit of 5.75% of the wage per new position, for the creation of 5 new jobs and 10 new jobs, respectively.

To qualify, a manufacturing business must:

- Be a manufacturer primarily engaged in activities at the facility that according to the North American Industrial Classification System, would be included in Sector 31, 32, or 33, except for Refiners.
- Offer ongoing job training or a postsecondary education program (e.g. tuition reimbursement).
- A new manufacturer must notify Commerce of its intent to be designated eligible before it establishes a facility in the state.
- An existing manufacturer must notify Commerce of its intent to be designated eligible for the program incentives before it creates new jobs.
- New or existing manufacturers in Tier 1 counties must create at least five new qualified jobs. (A qualified job is a job that is full-time, pays at least 120% of State minimum wage and is filled for 12 months.)
- Existing manufacturers in Tier 2 counties must create at least ten new qualified jobs. (A qualified job is a job that is full-time, pays at least 120% of State minimum wage and is filled for 12 months.)
- The manufacturer must begin hiring within 12 months of its NOI date to Commerce and meet the 5 or 10 job minimum within 12 months of its first hire.
- Enroll its project in the program before June 1, 2022.

To qualify, a non-manufacturing business must:

- Be located in an Opportunity Zone.
- Provide a Notice of Intent to Commerce before hiring.
- Create at least five new qualified jobs. (A qualified job is a job that is full-time, pays at least \$50,000 per year, and is filled for 12 months before they qualify for credits.)
- Offer ongoing job training or provide a post-secondary education program
- Begin hiring within 12 months of its Notice of Intent to Commerce. Once a business begins hiring, it must add 5 new qualified jobs within 12 months after the date of its first new hire.
- Existing businesses that move their facility from one Maryland County to another after June 1, 2017 will not be eligible to participate.

- Be certified by Commerce as a qualified business entity.
- Non-manufacturing businesses do NOT include businesses that: (i) provide adult entertainment, (ii) are primarily engaged in retail activities (except Grocery Stores), (iii) are primarily engaged in the sale or distribution of alcoholic beverages, or (iv) are one of the following types of entities: a private or commercial golf course or country club, a tanning salon, or a bail bondsman.
- Enroll its project in the program before June 1, 2022.

BENEFITS FOR BUSINESSES ENROLLED BETWEEN JUNE 1, 2022 AND JUNE 1, 2024

1. Businesses in Tier 1 jurisdictions receive a refundable State income tax credit of 4.75% of the wage per new position for a 10-year consecutive benefit period.
2. Businesses in Tier 2 jurisdictions receive a refundable State income tax credit of 4.75% of the wage per new position for a 5-year consecutive benefit period.

To qualify, a manufacturing business must:

- Be a manufacturer primarily engaged in activities at the facility that according to the North American Industrial Classification System, would be included in Sector 31, 32, or 33, except for Refiners.
- Offer ongoing job training or a postsecondary education program (e.g. tuition reimbursement).
- A manufacturer must notify Commerce of its intent to be designated eligible for the program incentives before it creates new jobs.
- Manufacturers in Tier 1 counties must create at least 10 new qualified jobs. (A qualified job is a job that is full-time, pays at least 150% of State minimum wage and is filled for 12 months.)
- Manufacturers in Tier 2 counties must create at least 20 new qualified jobs. (A qualified job is a job that is full-time, pays at least 150% of State minimum wage and is filled for 12 months.)
- The manufacturer must begin hiring within 12 months of its NOI date to Commerce and meet the 10 or 20 job minimum within 12 months of its first hire.
- Enroll its project in the program before June 1, 2024.

To qualify, a non-manufacturing business must:

- Be located in an Opportunity Zone.
- Provide a Notice of Intent to Commerce before hiring.
- Create at least 10 new qualified jobs. (A qualified job is a job that is full-time, pays at least \$50,000 per year, and is filled for 12 months before they qualify for credits.)
- Offer ongoing job training or provide a post-secondary education program
- Begin hiring within 12 months of its Notice of Intent to Commerce. Once a business begins hiring, it must add 5 new qualified jobs within 12 months after the date of its first new hire.
- Existing businesses that move their facility from one Maryland County to another after June 1, 2017 will not be eligible to participate.
- Be certified by Commerce as a qualified business entity.

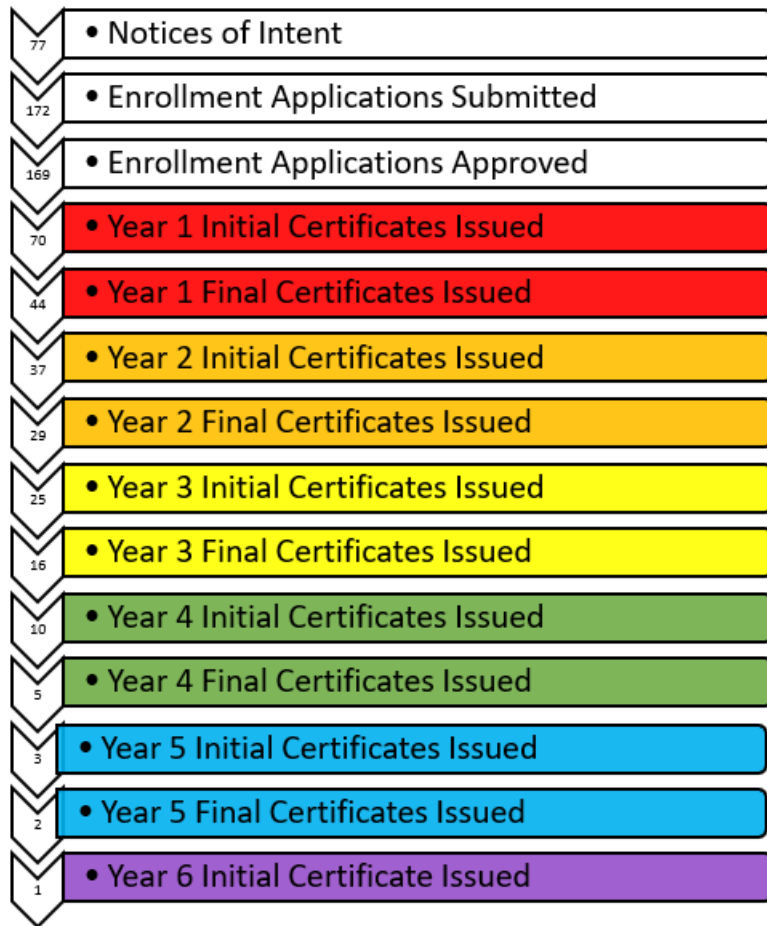
- Non-manufacturing businesses do NOT include businesses that: (i) provide adult entertainment, (ii) are primarily engaged in retail activities (except Grocery Stores), (iii) are primarily engaged in the sale or distribution of alcoholic beverages, or (iv) are one of the following types of entities: a private or commercial golf course or country club, a tanning salon, or a bail bondsman.
- Enroll its project in the program before June 1, 2024.

FISCAL YEAR 2024 ACTIVITY

Through the sunset of the original program on May 31, 2022, Commerce received NOIs from companies representing 361 projects interested in applying for the More Jobs for Marylanders' tax credits and Commerce certified 130 projects as Qualified Business Entities eligible to apply for the available incentives. The remaining companies that submitted a Notice of Intent prior to June 1, 2022 did not submit applications to enroll or were determined to be ineligible. The companies that enrolled prior to June 1, 2022 were required to submit a new Notice of Intent. Through the sunset of the modified version of the program on June 1, 2024, Commerce received 77 Notices of Intent for projects interested in participating and certified an additional 39 projects as Qualified Business Entities between June 1, 2022 and May 31, 2024. If a company did not receive an Enrollment Certificate prior to June 1, 2024, the company is no longer eligible to participate in the program.

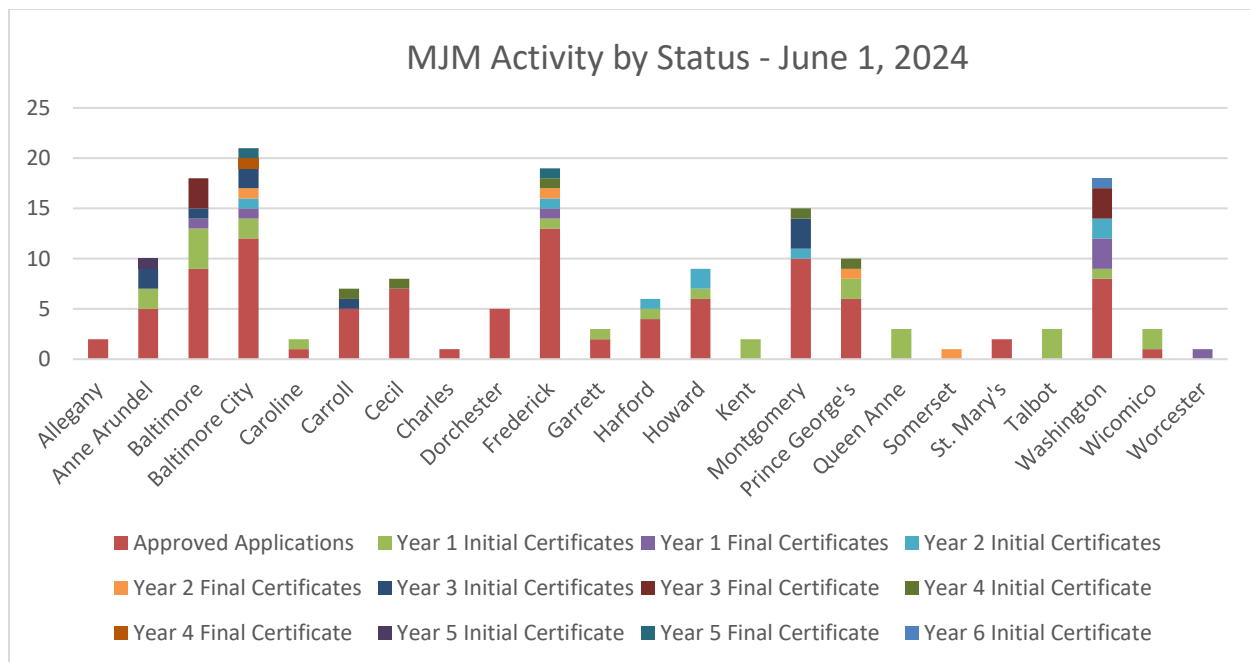
For the year 1 benefits, Commerce has issued Initial Tax Credit Certificates to 70 projects and Commerce has issued Final Tax Credit Certificates for 44 projects. For year 2 benefits, Commerce has issued Initial Tax Credit Certificates to 37 projects. Of the 37 projects, Commerce has issued Final Tax Credit Certificates for 29 projects. For year 3 benefits, Commerce has issued Initial Tax Credit Certificates for 25 projects and Commerce has issued Final Tax Credit Certificates for 16 of the 25 projects. Ten projects have been issued an Initial Tax Credit Certificate for year 4, and 5 of those projects have received a Final Tax Credit Certificate for Year 4. Three projects have received an Initial Tax Credit Certificate for Year 5, and 2 projects have received Year 5 Final Tax Credit Certificates. One project has received an Initial Tax Credit Certificate for Year 6.

The graphic below summarizes the steps by which a project advances from Notice of Intent to Project Enrollment to receiving its Initial and Final Income Tax Credit Certificates:



The More Jobs for Marylanders Tax Credit Program is having an impact statewide, encouraging businesses to expand and locate their manufacturing workforce in Maryland. The chart below shows the distribution by county of the number of Final Income Tax Credit Certificates Issued, the number of Initial Income Tax Credit Certificates Issued, and the number of Approved Enrollment Applications.

Twenty-three (23) of Maryland's 24 jurisdictions have at least one project that has enrolled in the program. Calvert County is the only jurisdiction without a project participating in the program.



PROJECTED DEMAND FOR THE TAX CREDIT

Final Certificates

As of June 1, 2024, Commerce issued a total of 97 Final Certificates for 44 projects. Data for Jobs, Wages and Credits in Table 1 below reflects actual performance for the 44 projects with Final Certificates.

Table 1

Final Income Tax Credit Certificates as of June 1, 2024						
Issued Final Certificates						
By Tier	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Tier 1	26	17	11	3	2	59
Tier 2	18	12	5	2	1	38
New versus Existing						
New (Tier 1)	7	5	4	1	1	18
Existing	37	24	12	4	2	79
Tier 1	19	12	7	2	1	41
Tier 2	18	12	5	2	1	38
Jobs, Wages, Credits through June 1, 2024						
Number of Qualified Positions Created						3,695
Aggregate Wage of Qualified Positions Created						\$655,051,441
Aggregated Tax Credit						\$36,794,818
Projected New Jobs through FY2029						8,592
Projected Total Wages in FY2029						\$854,702,329
Projected Total Credits in FY2029						\$49,145,384

Projected Total Wages through FY2029	\$3,760,726,677
Projected Total Credits through FY2029	\$216,241,784

Initial Certificates

There are 26 projects which have been issued Initial Income Tax Credit Certificates for year 1, but have not progressed to the Final Certificate step. These projects, summarized below in Table 3, are likely to be issued a Final Certificate in FY2025.

Table 2

Initial Income Tax Credit Certificates as of June 1, 2024	
Total Initial Certificates Issued Only	26
By Tier	
Tier 1	16
Tier 2	10
New versus Existing	
New (Tier 1)	2
Existing	
Tier 1	14
Tier 2	10
Projected Jobs, Wages, Credits	
Projected Year 1 New Jobs	411
Projected Year 1 Wages	\$26,138,380
Reserved Year 1 Credits	\$1,502,957
Projected New Jobs Through FY2029	1,485
Projected Total Wages through FY2029	\$98,935,711
Projected Total Credits through FY2029	\$5,688,803

Applications Approved and Enrolled as Qualified Business Entities.

Commerce adopted regulations, effective April 4, 2022, governing the administration of the Program. The regulations provide, in part, when a newly enrolled project may apply to reserve income tax credits against the Reserve Fund. A newly enrolled project may submit an Initial Income Tax Application no sooner than July following the first fully completed fiscal year that the project is enrolled in the Program. This regulation is intended to ensure that the projected demand is incorporated into the next available budget cycle.

There are 96 projects that have been enrolled in the program as Qualified Business Entities but have not been issued an Initial Income Tax Credit Certificate. Of the 96 enrolled projects, 61 projects are eligible to apply for income tax credits in fiscal year 2025 under the newly adopted regulations.

Table 3

Applications Approved and Enrolled as Qualified Business Entities as of June 1, 2024	
Enrollment Applications Approved but no Initial Income Tax Credit Issued	96
By Tier	
Tier 1	57
Tier 2	39
New versus Existing	
New*	26
Tier 1	23
Tier 2	3
Existing	70
Tier 1	34
Tier 2	36
Projected Jobs, Wages, Credits (Year 1 = FY2025)	
Projected Year 1 New Jobs	3,890
Projected Year 1 Wages	\$235,491,033
Projected Year 1 Credits	\$13,386,682
Projected New Jobs Through FY2029	13,850
Projected Total Credits Through FY2029	\$130,797,823

*For businesses enrolled after June 1, 2022, a new business to Maryland may locate in a Tier 1 or Tier 2 area, as there are no longer additional benefits available to new businesses.

Table 4 below summarizes the estimated income tax credits from the above tables. The demand for the credit is based on the projected number of new jobs and their associated wages to be created by the 131 projects over the next five years.

Table 4

	Number of Projects	FY2025	FY2026	FY2027	FY2028	FY2029
Initial Income Tax Credit Certificates that have not submitted Final Income Tax Credit application	26	\$1,502,957	\$2,833,514	\$4,355,932	\$5,174,426	\$5,688,803
Final Income Tax Credit Certificates	44	\$33,806,044	\$39,879,434	\$44,859,800	\$48,551,121	\$49,145,384
Enrollment Applications Approved but have not submitted Initial Income Tax Credit application	96	\$13,386,682	\$25,454,833	\$34,051,286	\$42,137,211	\$47,211,604
TOTAL	166	\$48,695,683	\$68,167,781	\$83,267,018	\$95,862,758	\$102,045,791

Appropriations and Expenditures

Year	Appropriation	Encumbered*	Expenditures
FY2019	\$9 million	\$1,580,649	-
FY2020	\$7 million	\$1,814,686	\$633,785
FY2021	\$2 million	\$7,178,324	\$1,647,918
FY2022	\$11,537,387 ¹	\$18,593,026	\$6,539,769
FY2023	\$30,030,530	\$19,881,208	\$14,009,295
FY2024**	\$33,900,000	\$26,041,293	\$15,370,887
FY2025	\$37,500,000	-	-
Total	\$130,967,917	\$75,089,186	\$38,201,654

*Encumbered funds represent the amount of tax credit reserved on behalf of qualified business entities on Initial Certificates issued in the fiscal year. Expenditures represent the amount of tax credit that was transferred from the More Jobs for Marylanders Income Tax Credit Reserve Fund to the General Fund when the Final Certificates were issued in the fiscal year.

**Includes encumbrances and expenditures through June 1, 2024.

¹ Including \$2 million original appropriation, \$2 million SUT Fund balance transfer and deficiency appropriation of \$7,537,387.

Commerce is projecting that the Department will need \$68.2 million in the More Jobs for Marylanders Income Tax Credit Reserve Fund for Fiscal Year 2026, which represents \$1.2 billion in projected wages. This funding request shows demand for Fiscal Year 2026 that exceeds the projection in the 2023 Reserve Fund Report due to a significant increase in enrollments in advance of the sunset of the program on June 1, 2024. Commerce previously projected \$48.7 million in demand in FY 2025, and the Department still anticipates that level. The Department therefore believes \$10 million from the FY 2024 fund balance can be utilized to meet FY 2026 demand, and the Department will need an FY 2026 appropriation of \$58.2 million.