



# **ENTERPRISE ZONE TAX CREDIT PROGRAM**

Presentation to:

Maryland Business Tax Reform Commission Business  
Incentives in the Tax Code Subcommittee

Submitted by:

Maryland Department of Business and Economic Development

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# MARYLAND ENTERPRISE ZONE PROGRAM

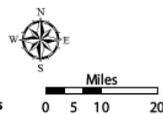
Maryland's Enterprise Zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property-owners located in some of the State's most economically distressed communities. The program was created in 1982 with two zones in two jurisdictions and has grown to include 28 zones in 14 jurisdictions. In accordance with Chapter 305, Acts of 2001, the Department of Business and Economic Development (DBED) has reviewed the effectiveness of the State's Enterprise Zone tax credit program and prepared this report. DBED wishes to acknowledge the efforts of the Comptroller of the Treasury, the State Department of Assessment and Taxation, and county and municipal enterprise zone administrators for providing valuable information for this report.

As of December 2009, there are 28 enterprise zones across the state and two focus areas. The enterprise zones are located throughout the state, with ten state-designated zones in Western Maryland, eight on the Eastern Shore, five in Southern and Suburban Maryland, and five in Central Maryland (Table 1).



## State of Maryland Enterprise Zones

- Enterprise Zone
- Enterprise Zone Focus Area
- County Seat
- State Capital
- County Boundary
- Surrounding State Boundary
- Interstates
- US Highways



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**Table 1: Enterprise Zones**

<b>County</b>	<b>Enterprise Zone</b>	<b>Expires</b>
Allegany	Rt. 220 South-Allegany County	12/14/2019
	Cumberland-Allegany County	6/14/2012
	Frostburg-Allegany County	12/14/2014
Baltimore City	Baltimore City	6/14/2012
Baltimore County	North Point-Baltimore County	12/14/2015
	Southwest Baltimore County	12/14/2013
Cecil	Cecil County	12/14/2013
Dorchester	Cambridge-Dorchester County	6/14/2013
Garrett	Southern Garrett Industrial Park	12/14/2016
	Northern Garrett Industrial Park	12/14/2018
	Central Garrett Industrial Park	6/14/2013
	Keyser's Ridge Business Park	6/14/2014
Harford	Aberdeen/Havre de Grace	6/14/2016
	Edgewood/Harford County	12/14/2014
Montgomery	Gaithersburg-Montgomery County	6-14-2018
	Takoma Park	6/14/2013
	Wheaton	6/14/2019
Prince George's	Prince Georges County	12/14/2019
Somerset	Crisfield-Somerset County	6/14/2016
	Princess Anne-Somerset County	12/14/2013
St. Mary's	Lexington Park	12/14/2010
Washington	Town of Hancock	12/14/2015
	Hagerstown-Washington County	12/14/2012
	Washington County Airport	6/14/2014
Wicomico	Salisbury-Wicomico County	12/14/2012
	Fruitland-Wicomico County	6/14/2015
Worcester	Berlin-Worcester County	12/14/2016
	Pocomoke City Enterprise Zone	12/14/2011
<b>Expired Zones</b>		
Allegany	Rocky Gap State Park/Allegany County	12/14/2003
Calvert	Calvert Industrial Park	6/14/2003
Montgomery	Silver Spring	12/14/2006
Washington	Washington County Interstate 81 Park	12/14/2001
Worcester	Snow Hill/Worcester County	6/14/2005
St. Mary's	Lexington Park (Focus Area designation only)	12/15/2005
Dorchester	Hurlock	12/14/2009
Montgomery	Tacoma Park (Focus Area only)	6/14/2008
<b>Focus Areas</b>		
Baltimore City	Baltimore City	12/14/2014
Prince George's	Prince George's County	12/14/2014

## **Real Property and Income Tax Credit Usage**

The primary benefits to businesses that are located within a Maryland enterprise zone are eligibility for local property tax credits and state income tax credits. The General Assembly requires DBED and the Comptroller of Maryland to assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted annually and the success of the tax credits in attracting and retaining businesses within enterprise zones.

This report addresses the number and amount of credits granted annually for each credit followed by a discussion of the information provided by county and/ or municipal administrators on how the credits are used to attract and retain businesses.

### ***Property Tax Credits***

Eligible businesses in an enterprise zone may claim a ten-year credit against local real property taxes on a portion of real property improvements. The credit is 80 percent of the assessment increase during the first five years. The credit then decreases 10 percent annually thereafter to 30 percent in the tenth year.

The State Department of Assessments and Taxation (SDAT) reports on the real property investment made in the enterprise zone, the number of businesses receiving property tax credits and the State's one-half reimbursement back to the local jurisdictions for the property taxes abated as a result of the credits. Businesses will receive property tax credits totaling \$30.4 million in FY 2011. The credits are based on real property investments made by those businesses totaling \$2,474 million. This translates to an average capital investment of \$2.9 million per business. The real property investment will cost the State \$15.2 million to reimburse the localities, assuming the State's full obligation is met.

Over the last five years the amount of property taxes granted to businesses has increased almost 50% percent with the biggest percentage increase coming between FY 2009 and FY 2010. During the last five years approximately \$820 million was invested in state enterprise zones. A consequence of this activity is that the State's reimbursement to the counties has almost doubled. The State's reimbursement climbed from \$8.3 million in FY 2007 to \$15.2 million in FY 2011. The amount of reimbursement continued to increase despite a struggling economy. One reason for this is that many projects began when the economy was stronger and access to credit and financing was easier. These projects are now complete and eligible for the property tax credits. The following chart compares the capital investment by county during this time.

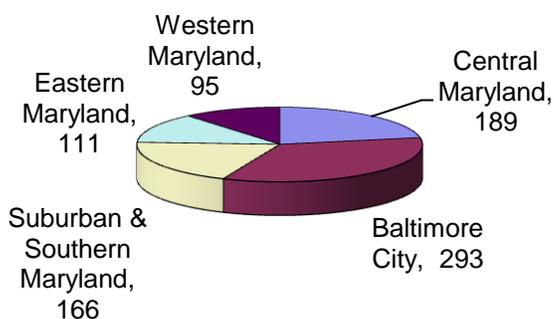
Table 2: Capital Investment Made in Enterprise Zones							
County	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Percent Change FY 2011-2010	Percent Change FY 2011-2007
Allegany	40,594,813	36,531,913	38,669,575	43,280,775	40,349,670	-6.8%	-0.60%
Baltimore City	302,758,851	315,676,051	403,035,304	788,230,308	897,361,621	13.8%	196.39%
Baltimore County	127,917,108	160,657,721	113,562,211	107,676,817	187,247,645	73.9%	46.38%
Calvert	12,568,055	14,865,772	12,953,880	12,553,543	11,552,045	-8.0%	-8.08%
Cecil	145,092,988	159,884,356	199,088,464	146,318,141	230,237,945	57.4%	58.68%
Dorchester	36,099,199	23,912,667	15,073,820	13,354,446	11,015,387	-17.5%	-69.49%
Garrett	6,550,074	8,659,065	21,393,945	17,914,080	21,374,883	19.3%	226.33%
Harford	334,214,782	404,536,606	297,375,700	272,771,225	378,844,020	38.9%	13.35%
Montgomery	379,327,375	357,178,177	380,296,256	283,512,125	297,180,514	4.8%	-21.66%
Prince George's	73,499,419	100,078,771	128,255,209	122,565,070	254,280,803	107.5%	245.96%
St. Mary's	6,223,868	6,361,968	12,119,840	14,345,061	9,908,705	-30.9%	59.20%
Somerset	494,132	735,940	396,713	1,132,078	1,162,944	2.7%	135.35%
Washington	169,037,629	174,352,141	89,622,175	102,207,737	107,180,947	4.9%	-36.59%
Wicomico	9,988,984	8,481,917	11,031,588	17,940,075	24,040,620	34.0%	140.67%
Worcester	9,801,116	5,866,190	2,229,325	2,025,857	2,987,866	47.5%	-69.52%
<b>Maryland</b>	<b>1,654,168,393</b>	<b>1,777,779,255</b>	<b>1,725,104,005</b>	<b>1,945,827,338</b>	<b>2,474,725,615</b>	<b>27.2%</b>	<b>49.61%</b>

Source: SDAT and DBED

As Table 2 shows the amount of capital investment increased almost 50 percent over this time period. The largest dollar increases in capital investment were in Baltimore City, Cecil, and Prince George's Counties.

There is considerable variation by region in the usage of the program. This variance is attributable to three factors: 1) eligibility for the program—poorer areas can more readily meet the eligibility criterion for participation in the program; 2) political choice to participate in the program—the governing bodies of counties and their municipalities have sole authority to request creation of an enterprise zone and sole discretion to establish local standards that govern access by businesses to the program's credits; and 3) private sector business expansion—the enterprise zone has no costs unless businesses make new investments in real property. In FY 2011, 854 businesses across the State received tax credits for investments in enterprise zones. Figure 1 shows the location of these businesses by region.

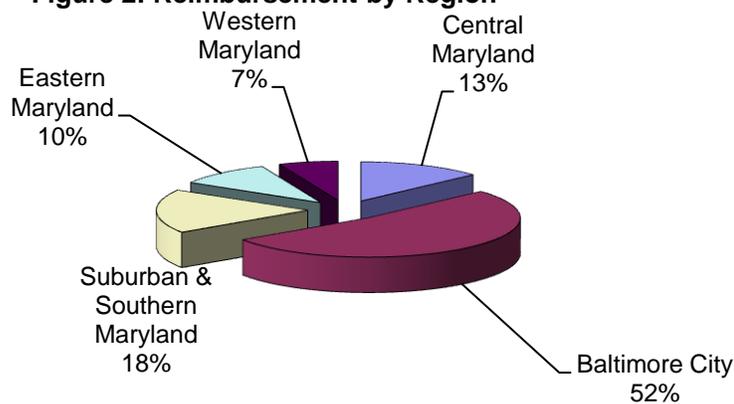
**Figure 1: Businesses Receiving Enterprise Zone Property Tax Credits**



Source: SDAT and DBED

Figure 2 shows the distribution of property tax credit reimbursements by region for the upcoming fiscal year (FY 2011). Over half of the reimbursement will go to Baltimore City, or \$7.7 million. This is followed by Suburban and Southern Maryland (\$2.7 million), Central Maryland (\$2.0 million), the Eastern Shore (\$1.5 million) and Western Maryland (\$0.9 million).

**Figure 2: Reimbursement by Region**



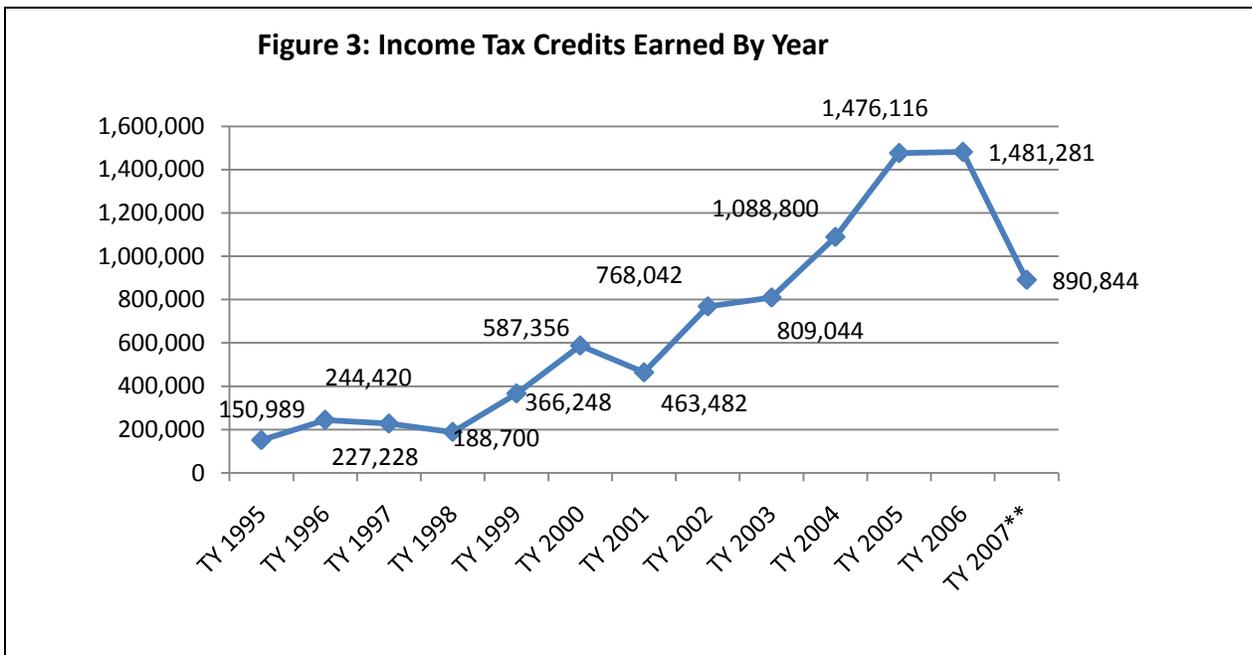
Source: SDAT and DBED

### ***Income Tax Credits***

Eligible businesses in an enterprise zone may claim one-year or three-year credits for wages paid to new employees in new positions. The general credit is a one-time \$1,000 credit per new worker. For economically disadvantaged employees, the credit

increases to a total of \$6,000 per worker distributed over three years. Businesses claim the enterprise zone income tax credits on the 500CR form when they submit their business or individual income tax returns to the Comptroller of Maryland. The Comptroller collects and compiles this tax return data.

The Comptroller has provided consistent tax return data on the enterprise zone income tax credits from tax years 1995 to 2007. As Figure 3 shows, the usage of the credits varies from year-to-year but has been trending upward over the last five years. Businesses in enterprise zones have earned a total of \$8.7 million in income credits over this time period.



\*\* Data is incomplete for the TY 2007  
 Source: Comptroller and DBED

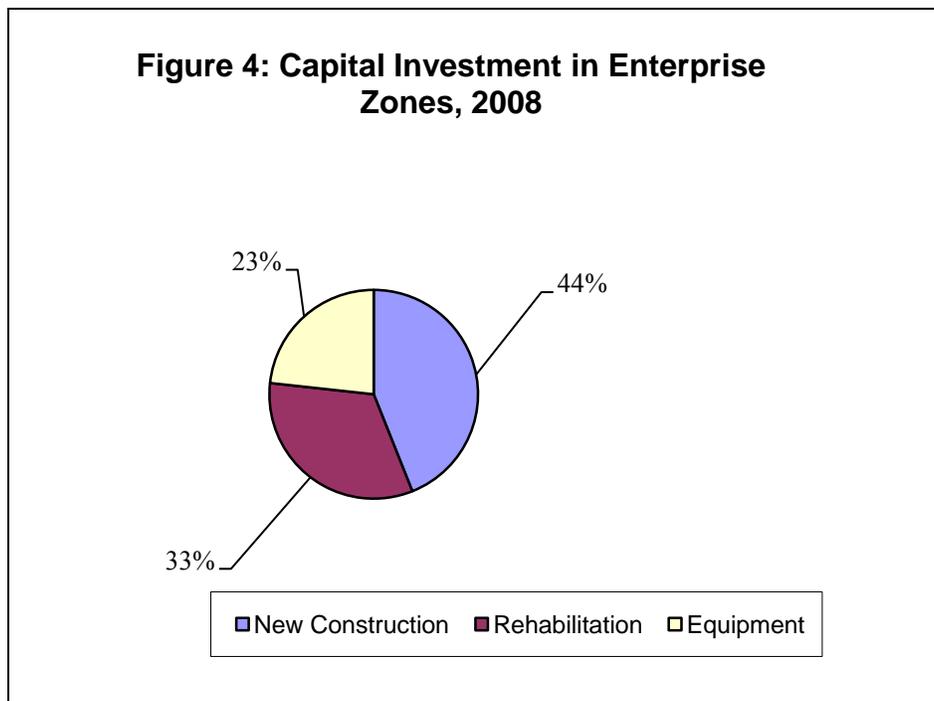
Enterprise zone administrators generally agree that the enterprise zone real property tax credit is the most useful and effective enterprise zone credit available to businesses that locate or expand in an enterprise zone. Counties that have few other incentives to offer find that the property tax credits are very important. Several counties also noted that the credits are useful in retaining companies in the zone. Companies considering an expansion often decide to expand within the zone rather than move to another location outside of the zone.

The Employment tax credits are perceived as secondary in importance in attracting businesses. Most of the businesses are small employers who do not always take advantage of the incentive due to wages paid and the perceived paperwork involved with obtaining the credits. Administrators report a large degree of interest in the credits

and find them useful in marketing their areas to prospective businesses, although the importance of the credits in a firm's decision to locate varies from zone-to-zone.

### **Business Activity in the Enterprise Zones**

In addition to the information from SDAT and the Comptroller on the number and amount of credits granted annually, the local enterprise zone administrator annual reports provide information on the activity of the businesses in their enterprise zones and on their experience in using the credits. Local zone administrators reported that they certified 201 new businesses for the property and/ or income tax credits in 2008. Based on the administrator reports, net new jobs were a little over 1,700. This includes businesses that lost jobs last year. Businesses also reported on the amount of capital investment in new construction, rehabilitation and equipment. According to the reports, in 2008 businesses invested approximately \$231 million of which 44 percent was in new construction, 33 percent for rehabilitation and 23 percent on equipment.



It is difficult to compare information on the amount of investment or jobs on a year-to-year basis because the information is, in any year, only reflective of the businesses that provided information to the enterprise zone administrators and does not reflect the activity of all businesses in the all of the zones.

### ***Enterprise Zone Impacts***

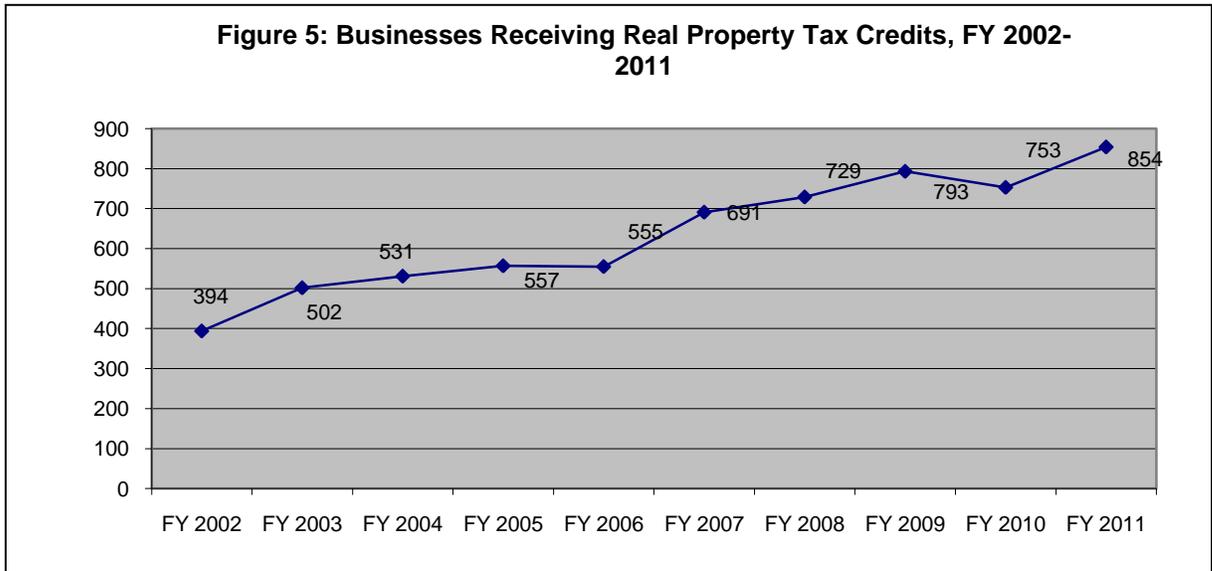
An important goal of the enterprise zone program is to improve the communities in and around the zone. Enterprise zone administrators reported their observations on the impact of the enterprise zone on their community. In some cases the zones have only

been designated for a few years and have not had enough time to impact their community, while the communities in and around other zones have experienced significant improvement. Some zones have seen very little improvement to the communities surrounding their zone.

***Growth In Enterprise Zone Activity***

The Enterprise Zone Program has been in existence for over twenty-five years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 854 businesses in FY 2011. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a real property tax credit in 1996, if it remained in operation, was still receiving some credit in 2006. The number of businesses investing began to grow beginning in FY 1999 reflecting both a stronger economy and more opportunities for investment as the number of zones also grew during this time. In addition, in recent years, the trend has been for jurisdictions to apply to expand their existing zones. Bigger zones also mean more opportunities for businesses to apply for the credits.

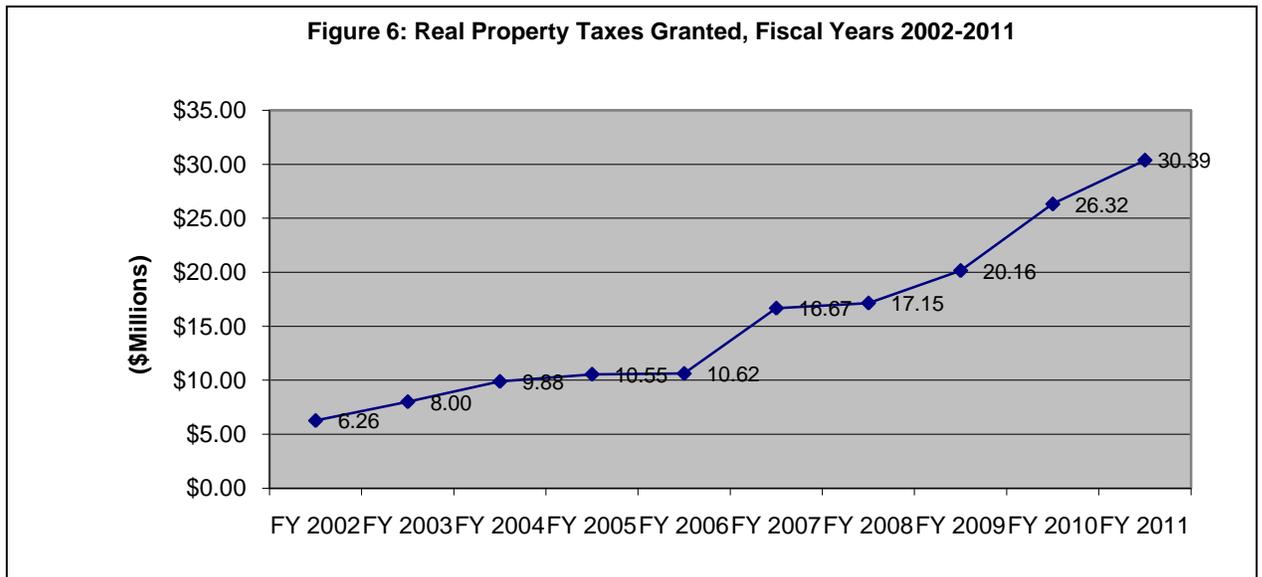
The number of businesses receiving real property tax credits has generally increased from year-to-year. Figure 5 illustrates the number of businesses receiving real property tax credits on an annual basis over the last ten years. The number of businesses has more than doubled during this time.



Source: SDAT and DBED

As investment has grown, so has the amount of property tax credits granted to businesses in the zones. Real property taxes abated have grown from approximately \$58,000 in the first year to over \$30.4 million. The amount of property tax credits granted shows a similar trend over the time period analyzed. From FY 2002 to FY 2011,

the amount of property tax credits granted increased from \$6.2 million to \$30.4 million (Figure 6).



Source: SDAT and DBED

In general, the real property tax credit data provides information on the amount of credits granted and the usage of the credits. The number of businesses participating and the amount of eligible investment has generally grown over the life of the program, but especially in the last several years and significantly since FY 2006.