



MARYLAND ENTERPRISE ZONE Property Tax Credits

What Is the Property Tax Credit?

The Enterprise Zone Real Estate Property Tax Credit is an incentive for businesses to locate or expand facilities in designated areas. For either a new or an expanding business which meets the eligibility requirements, the amount of the credit is 80% of the taxes due on any expansion, renovation or capital improvement in the property over the first five years. For the subsequent five years, the credit decreases 10% annually (70%, 60%, 50%, 40%, 30%). In a focus area, the credit is 80% for ten years. After ten years of property tax credits, the property is returned to the tax rolls at its full-assessed value.

Let's take an example. A business with an assessment of \$150,000 (the *base year* assessment) modernizes and expands its facility. As a result of this investment, the assessment increases to \$200,000—an increase of \$50,000. Eighty percent (80%) of this \$50,000 increase, amounting to \$40,000, will not be taxed the first year. The county tax rate is \$2.00 per hundred dollars of assessed value and the municipal tax rate is \$1.00 per hundred. The businesses tax savings for the first year is 3% times \$40,000 or \$1,200.

Does this credit apply to the State property tax levy?

No. The State property tax, with a rate of .112 per hundred dollars of assessed value, is not eligible for the enterprise zone property tax credit.

What if property values rise and my assessment increases?

The property tax credit is the difference between the *base year* assessment and the current tax year assessment. If the assessment on our example increased in the third year to \$250,000, the assessment subject to the credit would be \$100,000 (\$250,000 minus \$150,000). If the tax rates remained \$3.00 per hundred dollars of assessed value, the tax savings would be \$3,000 for that year.

How does a business meet the eligibility requirements?

The statute states that the business must make a capital investment or it must hire new employees. Obviously, if the business qualifies for the credit only by hiring new employees, the amount of the property tax credit will be likely to be small since any increase in assessment reflects only inflation or shifts in land values. In addition, it should be noted that the local enterprise zone may have other requirements which must be met over and above the two basic State statutory requirements described above.

What must my business do in order to receive the property tax credit?

The business must apply to the local zone administrator for certification. The local zone administrator then notifies the Maryland Department of Assessments and Taxation that the individual property meets all state and local eligibility requirements. In order to receive the tax credit on the next July 1 tax bill, the business must apply in time for the local zone administrator to

certify the property's eligibility before January 1. Therefore, it is important that the individual check with the locality regarding specific application dates and other application requirements.

When does the property tax credit take effect?

The tax credit is granted on whole taxable years only. A business would have to pay any half-year levy tax bills should the capital improvement be assessed as complete before July 1 of the first year of eligibility. The business will then receive the tax credit for ten full years.

What if the property is leased?

The owner may directly seek certification for improvements he makes to the property. However, a problem often occurs because the law provides that only owners of the property can receive the benefit. In reality, it is often the lessee that actually pays for the capital improvements. We therefore advise that enterprise zone firms review the tax "pass through" provisions of their lease before proceeding with capital improvements. It may be prudent and necessary to renegotiate the lease agreement before committing to assessable improvements to real estate.

What Is the Income Tax Credit?

Maryland's Enterprise Zone Program provides special tax credits to encourage businesses in the enterprise zone to create new jobs. The credits are more valuable than deductions because credits are subtracted directly from income tax liability. There are actually two types of income tax credits for firms in an enterprise zone: a general income tax credit and a larger income tax credit for hiring economically disadvantaged employees. Firms in focus areas receive enhanced credits.

- **General Enterprise Zone Income Tax Credit:** This credit is available for any worker who meets the requirements of employment in a zone.
- **Enterprise Zone Income Tax Credit for Economically Disadvantaged Employees:** A state income tax credit available for hiring economically disadvantaged employees to fill newly created positions.

How much credit does a business receive?

1. The general income tax credit is \$1,000 for each qualified new employee filling a newly created position in an enterprise zone, or \$1,500 for each qualified new employee in a focus area.
2. The tax credit for economically disadvantaged employees is for a three-year period for each qualified employee, earned at the following flat rates:

| | Enterprise zone | Focus area |
|-------------|-----------------|------------|
| First year | \$3,000 | \$4,500 |
| Second year | \$2,000 | \$3,000 |
| Third year | \$1,000 | \$1,500 |

In order to receive the full tax credit, an economically disadvantaged employee must remain in the position for three years. However, if the disadvantaged employee leaves the firm and is replaced by another employee who is also certified as disadvantaged, the firm may take the remainder of the credit as if the original employee had remained.

How do I know I can claim an enterprise zone income tax credit?

1. **Local Firm Certification Requirement.** Not every business located in an enterprise zone is eligible to claim the income tax credit. In order to claim the credit, the business must be certified by the local zone administrator as eligible for the credit. A locality may establish special requirements for firm certification. Therefore, it is very important for a firm considering expansion of its workforce to contact the local zone administrator for certification.
2. **Other General Requirements.** Not every new employee hired by a business located in an enterprise zone is eligible for one of the enterprise zone income tax credits. The following

requirements apply to both the general credit and the credit for hiring economically disadvantaged employees:

- a. The employee must have been hired after the business was located in the zone or after the zone was designated.
 - b. The employee must have been employed for at least 35 hours each week for six months (or 12 months in a focus area) before or during the taxable year in which the credit is taken.
 - c. The employee must spend half of all work time in the zone or in activity related to the zone.
 - d. The employee must have been hired to fill a new position. That is, the firm's number of full-time positions must increase by the number of credits taken.
 - e. The employee must earn at least 150 percent of the federal minimum wage.
3. **Requirements for Economically Disadvantaged Employees.** In order to claim the larger tax credit for hiring an economically disadvantaged employee to fill a newly created position, the firm must obtain a certification of eligibility for each employee. This certification is provided by the Maryland Job Service, Department of Labor, Licensing and Regulation.

What if a firm relocates into an enterprise zone?

If a firm relocates from one site in Maryland into an enterprise zone, its base employment remains the same as it was at the previous site. However, if the firm's total employment increases, then the new positions may be eligible for either enterprise zone income tax credit. A firm moving from outside the State into an enterprise zone is considered to be a new Maryland business. All of its employees might be eligible for the credit.

Can these credits be combined?

You cannot receive both state enterprise zone income tax credits for the same individual. However, you may be able to combine an enterprise zone tax credit with another state income tax credit like the Job Creation Tax Credit.

What if I do not have enough income tax liability to use all of the credit?

If the tax credits exceed the tax imposed for that year, they may be applied to the next year's taxes until the credit is used or five tax years have passed.

How do I claim the enterprise zone employment tax credit?

Maryland Tax Form 500CR is used to claim this credit. Simply fill it out and include it in your state tax return. Also, note that the credit is taken against the state income tax only. It is not taken against the County income tax "add-on."