

# **Part B**

## **Taxes**

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### **Property Taxes**

#### **Property Tax Administration**

##### **Petition for Review**

Under current law, a property tax assessment can be appealed in several ways. Taxpayers, counties, municipalities, and the Attorney General can appeal an assessment within 45 days of receipt of an assessment notice, by a petition for review, and, in the case of the taxpayer, within 60 days of purchase of property between January 1 and June 30. A petition for review, which triggers an out-of-cycle assessment appeal, must be filed with the Department of Assessments and Taxation by January 1 of any year.

Since 1976, when the authority to appeal assessments by filing a petition for review was granted to local governments, Montgomery County has been the only county to use the authority. No municipality had ever filed a petition until recently when the City of Rockville filed ten and Gaithersburg filed one. The Attorney General's Office has never filed a petition.

In recent years, Montgomery County has routinely filed a petition for appeal of a property tax assessment when property sells for significantly more than the current assessment. Property owners and the Department of Assessments and Taxation have objected that these petitions for review, by resulting in assessment increases outside of the three-year cycle for assessments under the State's triennial assessment process, effectively violate assessment uniformity and can result in large variances in property assessments within the same neighborhood.

*Senate Bill 208/House Bill 892 (both passed)* are emergency bills that repeal the authority for municipalities, counties, and the Attorney General to appeal a real property tax assessment outside of an assessment cycle. The right to appeal within 45 days after an assessment is issued remains unchanged. The bills also provide that the Department of Assessments and Taxation may not certify an assessment after the effective date of the bill that reflects an increase related to a petition for review after January 1, 2000 by a local government, and the local government may not issue a tax bill after the effective date of the bill that reflects an increase related to a petition for review after January 1, 2000, by a local government.

### **Assessment Process**

*Country Clubs and Golf Courses:* In an effort to help protect golf course green space from increased pressure to convert to commercial or residential development as a result of rapidly increasing property tax assessments, *Senate Bill 571/House Bill 758 (both passed)* change the assessment method for the land of country clubs and public golf courses to the assessment method for open space if the clubs and golf courses are located on at least 50 acres with at least nine holes. The Department of Assessments and Taxation must adopt regulations establishing the value of land under this bill.

Under current law, a country club (but not a golf course open to the public) may enter into an agreement with the department for an assessment based on its current use as a country club rather than its highest and best use. A country club is not eligible for the special use assessment if it allows or practices discrimination based on race, color, creed, sex, or national origin. Golf courses are assessed at market value, with land being appraised as if the land were vacant and available for its most economic use. For both country clubs and golf courses, improvements are valued at the cost to construct such improvements, less applicable depreciation. Most country club and golf course land is currently assessed in excess of \$5,000 per acre.

*Senate Bill 571/House Bill 758* authorize golf courses as well as country clubs to enter into agreements with the department for special use valuation of land used as a golf course. Under the bills, these agreements are subject to the same nondiscrimination requirement as under the current law. Under the bills, for both country clubs and golf courses that enter into the agreements, land actively used as a country club or golf course will be valued at rates equivalent to rates for open space land.

As a result of assessing golf courses as open space at \$1,000 per acre, State special fund revenues could decrease by \$47,500 in fiscal 2003 and by \$75,000 in fiscal 2004, increasing annually thereafter based on expected assessment increases. General fund expenditures will increase by a corresponding amount. Because all State property tax revenues are dedicated to paying the debt service on State general obligation bonds, any decrease in property tax revenue will result in increased general fund expenditures to pay debt service.

Local government property tax revenues could decrease as follows:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
County	\$537,600	\$858,200	\$1,123,300	\$1,291,700	\$1,428,400
Municipal	\$15,700	\$19,000	\$21,800	\$24,000	\$27,800

**Personal Property:** Under current law, in order to correct the prior filing of a personal property tax return with the Department of Assessments and Taxation, a property owner must appeal an assessment by submitting a petition for review within three years of the date of the notice of assessment. If an assessment is reduced by means of an appeal, any refund paid to the taxpayer must provide for interest at the same rate that would have been charged if the taxes were overdue.

*Senate Bill 430/House Bill 588 (both passed)* provide that a person who files a personal property report and subsequently determines that information was incorrectly reported may file an amended report and receive a refund within three years after the April 15 that the original report was due. After reviewing an amended report, the department may either issue a corrected assessment notice or notify the person that the original assessment stands. The taxpayer may appeal the department determination. The bills also clarify that a local government must refund tax overpayments resulting from a corrected assessment issued by the department but a municipality can pay a refund without interest if the refund is due to taxpayer error.

## Property Tax Credits

### Surviving Spouse of Fire, Rescue, or Emergency Medical Service Personnel

Chapter 531 of 2001 provided a real property tax exemption for the surviving spouse of an individual who died in the line of duty while in the active military, naval, or air service of the United States. *Senate Bill 867 (passed)* authorizes a local government to grant a real property tax credit on a dwelling that is owned by the surviving spouse of a fallen rescue worker. The dwelling must be the surviving spouse’s legal residence and not be occupied by more than two families. A fallen rescue worker means an individual who dies while in active service of a fire, rescue, or emergency medical service, unless the death was a result of the individual’s willful misconduct or abuse of alcohol or drugs.

In order to qualify for the credit, the surviving spouse must have not remarried and the dwelling must have been: (1) owned by the fallen rescue worker at the time of death; (2) purchased by the surviving spouse within two years of the fallen rescue worker’s death as long as the worker or the spouse were domiciled in Maryland at the

time of death; or (3) acquired after the surviving spouse qualified for the exemption for a former house, to the extent of the previous exemption.

### **Other Tax Credits**

*Senate Bill 40/House Bill 355 (passed)* allow a homeowner age 70 or older to apply and receive a Homeowners' Tax Credit for up to three years after the usual filing deadline. The homeowners' (circuit breaker) tax credit is a State funded program, enacted in 1975, that provides credits against State and local real property taxation for homeowners who qualify based on a sliding scale of tax liability and income. Only the taxes associated with the first \$150,000 of assessed valuation of an individual's principal residence may qualify for the credit, and any taxpayer with a net worth of more than \$200,000, excluding the value of the home, is currently ineligible.

*Senate Bill 344/House Bill 243 (passed)* authorize local governments to grant a tax credit against the property tax imposed on personal property, other than operating personal property of a public utility, of businesses that provide computers to employees for their use at home.

*Senate Bill 750 (passed)* expands the applicability of a local government property tax credit for property that is subject to a perpetual conservation easement by changing the date that the easement must have been donated to a land trust or the Maryland Environmental Trust from on or after July 1, 1991, to on or after June 30, 1986.

## **Local Property Taxes**

### **Baltimore City**

#### **Tax Credit for Newly Constructed Dwellings**

*House Bill 125 (passed)* extends the June 30, 2002, termination date of the Baltimore City property tax credit program for newly constructed dwellings until June 30, 2005. Baltimore City may grant a property tax credit against city property taxes imposed on newly constructed dwellings or first purchased dwellings owned by qualified owners. The credit is 50 percent for the first taxable year and decreases by 10 percent each year until it expires after the fifth year. The bill also repeals the city's authority to grant a property tax credit for first purchased dwellings which, although authorized by the State, was never enacted by Baltimore City.

#### **Tax Sales**

*Tax Sale Process: Senate Bill 489/House Bill 558 (both passed)* provide that certain provisions related to the sale of abandoned property in Baltimore City apply only

to property sold with a minimum bid less than the lien amount. Further, a complaint to foreclosure all rights of redemption may be filed at any time after the date of the tax sale on abandoned property with a minimum bid less than the lien amount. The bills also repeal a requirement that a final judgment in a proceeding involving abandoned property in Baltimore City is void in 30 days under certain circumstances, and provide that the purchaser in such a transaction is not an interested party for purposes of voiding the judgment.

Chapter 408 of 2000 made various changes to the process of tax sales of abandoned property in Baltimore City, including that the property could be sold for less than the amount owed as long as a minimum bid is established. According to the city, the changes resulting from Chapter 408 have created confusion as to when certain redemption laws apply, and these bills clarify the redemption process for the tax sale of abandoned property. Additionally, the city is experiencing problems from individuals who purchase property at tax sale and, when the judgment to execute a deed to the purchaser is final, make a motion for the judgment to be stricken and demand their money plus interest back from the city. In an effort to correct this situation, these bills would remove the right of the purchaser to make such a motion.

**Ground Rent – Donations:** *House Bill 997 (passed)* provides that at a tax sale for abandoned property located in Baltimore City, if the property is subject to a ground rent or lease for a term of 99 years renewable forever, the whole fee simple interest in the property must be sold. Before the judgment foreclosing an owner's right of redemption, a reversion in a ground rent or lease for a term of 99 years renewable forever may be donated to the city or an entity designated by the city. Under current law, if the property is sold at tax sale, only the leasehold interest is sold.

**High Bid Premium:** High-bid premiums were established to discourage persons from bidding excessively high amounts on tax sale properties. Some investors at tax sales purchase properties solely to recoup interest, penalties, and legal costs. Since these investors never intend to foreclose on the properties, the amounts of their bids are irrelevant, and the bid amounts have skyrocketed, up to infinity and even infinity plus one. Many tax sales had to be suspended, postponed, or canceled due to unmanageable bidding. As a result of Chapters 326 and 786 of 1998, local governments may choose to use a high-bid premium system to help control the tax sale. If a local government chooses to use such a system, the premium amount is 20 percent of any bid over 40 percent of the full cash value. Baltimore City has more low-value/high-lien properties than other jurisdictions and in an effort to provide them more protection, *Senate Bill 378 (passed)* is an emergency bill providing that a high-bid premium assessed on property tax sales in Baltimore City may be calculated as 20 percent of the amount that the high bid exceeds the greater of the lien amount or 40 percent of the property's full cash value.

## **Baltimore County**

## **Neighborhood Preservation and Stabilization Credit**

Chapter 590 of 1996 established the Neighborhood Preservation and Stabilization Act and provided a tax credit for property taxes on owner-occupied residential property bought in designated neighborhoods in Baltimore City and Baltimore County from July 1, 1996, to June 30, 1999. Chapter 319 of 1999 extended this time frame to June 30, 2001, and also increased the number of dwellings eligible for the program. Chapter 265 of 2000 extended the termination date until June 30, 2002.

The tax credit is 80 percent of the property taxes paid in each year of the first five years of ownership. This amount declines by 10 percent in each of the following years until the eleventh year, when it expires. The cost of the credit is split between the State and local governments with one-half of the credit amount being applied against the State income tax and the other half being a reduction in local property taxes owed.

*House Bill 525 (passed)* extends until June 30, 2005, the qualifying period for participation in the Baltimore County program only. Under the bill, the Baltimore City program will expire at the end of June 30, 2002.

## **Charles County**

### **Renovated or Rehabilitated Business Property**

*House Bill 1003 (Ch. 90)* authorizes Charles County to grant a real property tax credit on business real property located in a priority funding area that has been renovated or rehabilitated. The credit is limited to the increase in assessed value as a result of the renovation or rehabilitation and is limited to five years.

## **Frederick County**

### **Agricultural Preservation Land and Farm Buildings**

*Senate Bill 438/House Bill 337 (both passed)* authorize Frederick County to grant a property tax credit against the county real property tax on agricultural preservation land and against the property tax on buildings that are located on qualified agricultural land and used in connection with an agricultural activity. Agricultural preservation land is defined as real property that is subject to an easement or other interest that is permanently conveyed or assigned to preserve the agricultural use of the property, or real property that the county has designated as being within an agricultural preservation district.

## **Montgomery County**

### **Businesses That Create New Jobs Tax Credit**

The Businesses That Create New Jobs tax credit authorizes a county or municipality to grant property tax credits against real and personal property taxes of a business that locates or expands within its jurisdiction.

Under current law, to qualify for the tax credit, a business must locate in new or expanded office space of at least 5,000 square feet that has not been previously occupied and must create at least 25 new full-time jobs.

The county and municipal governments may provide a tax credit equal to a percentage of the amount of property tax imposed on the assessment of the new or expanded premises. The State participates by granting a credit against State taxes equal to as much as 35 percent of the property tax credit granted by the county or municipality. Because this is enabling legislation for local governments, a State tax credit is only granted if a local jurisdiction first grants a local property tax credit.

A business can qualify for an enhanced Businesses That Create New Jobs property tax credit if it: (1) obtains at least 250,000 square feet of new or expanded premises, continues to employ at least 2,500 individuals in existing full-time positions, and employs at least 500 individuals in new permanent full-time positions; or (2) obtains 250,000 square feet of new or expanded premises and employs at least 1,250 individuals in new permanent full-time positions.

The enhanced property tax credit provides a county or municipal corporation property tax credit for each of the first 12 taxable years after the business qualifies for the credit in an amount equal to 58.5 percent of the amount of property tax imposed on the increase in assessment.

*House Bill 707 (passed)* expands the enhanced credit portion of this tax credit for Montgomery County only. The bill provides that in Montgomery County, to qualify for an enhanced property tax credit, a business must spend at least \$150 million to obtain at least 700,000 square feet of new or expanded premises and employ at least 1,100 individuals in full-time positions, under specified conditions.

The positions may be either full-time and of indefinite duration or contract positions of definite duration. All positions must receive an employer subsidized health care benefits package, pay at least 150 percent of the federal minimum wage, and actually be located in or adjacent to the new/expanded premises. At least 500 of the permanent full-time positions must be new positions.

### **Washington County**

*House Bill 942 (Ch.89)* authorizes Washington County and its municipalities to grant a real property tax credit on property owned by the Hagerstown Soccer Club, Inc.

## Income Tax

### The Budget Reconciliation and Financing Act

#### Final Phase of the State Income Tax Cut

As introduced, *Senate Bill 323 (passed)*, the Budget Reconciliation and Financing Act, proposed delaying indefinitely the final 2 percent of the State income reduction that was originally enacted by Chapter 4 of 1997. Chapter 4 of 1997 provided that for tax years after 2001, the maximum State tax rate would be 4.75 percent and the amount allowed for personal exemptions would be \$2,400. The Department of Budget and Management estimated that the deferral of the last phase of the income tax cut could result in a general fund savings of approximately \$177 million in fiscal 2003.

However, the General Assembly felt it was important to proceed with the final 2 percent reduction of the State income tax as provided in the 1997 legislation. As a result, this part of the proposal was deleted from *Senate Bill 323*.

A more detailed discussion of this bill can be found under the subpart “Operating Budget” under Part A of this *90 Day Report*.

#### Federal Decoupling

*Senate Bill 323* makes a number of changes to the Maryland income tax law. Among these changes is a decoupling from the federal income tax related to certain changes made by the federal Economic Growth and Tax Relief Reconciliation Act of 2001 and the Job Creation and Worker Assistance Act of 2002.

***Decoupling from the Federal College Tuition Deduction:*** Under current law, deductions allowed on the federal income tax return that reduce federal adjusted gross income (FAGI) reduce Maryland revenues because Maryland uses federal adjusted gross income as the starting point for calculating Maryland income tax. Therefore, federal income tax changes that reduce federal adjusted gross income reduce Maryland revenues as well.

The 2001 federal tax act created a new federal deduction for qualified higher education expenses. Under the Act, for tax years 2002 and 2003, single taxpayers with FAGI under \$65,000 and married taxpayers filing jointly with FAGI under \$130,000 can deduct up to \$3,000 of qualifying expenditures (including tuition and required fees, but excluding room and board), even if they do not itemize deductions. For tax years 2004

and 2005, the deduction increases to \$4,000. This provision of the federal Act terminates at the end of tax year 2005. *Senate Bill 323* provides for an addition modification on the Maryland income tax return in the amount of any deduction taken on the federal return for higher education expenses. It is estimated that this addition modification will prevent the loss of approximately \$13 million in general funds in fiscal 2003, \$10 million in fiscal 2004, \$16.4 million in fiscal 2005, and \$17 million in fiscal 2006.

***Decoupling from Internal Revenue Code Amendments if Greater than \$5,000,000:*** *Senate Bill 323* also decouples the Maryland income tax from changes to the federal income tax for the taxable year in which there are any amendments to the Internal Revenue Code, unless that action is estimated by the Comptroller to have a State impact of less than \$5 million in the fiscal year that begins during the calendar year the amendment is enacted. Current law provides that taxpayers are not affected by federal changes that would increase Maryland adjusted gross income in the year the change occurs. The bill provides the State a similar protection from federal tax changes that would decrease Maryland adjusted gross income. The actual impact of this provision cannot be estimated and depends on the potential impact of any federal income tax changes that may occur, as determined by the Comptroller.

***Decoupling from the Federal Economic Stimulus Bill:*** The federal Job Creation and Worker Assistance Act of 2002 contains two provisions with significant potential fiscal implications for Maryland: (1) a special depreciation allowance (30 percent “bonus” depreciation for property in the first year placed in service); and (2) an extended net operating loss carryback period (five years for net operating losses for taxable years ending during 2001 or 2002).

Absent a decoupling from these federal income tax changes, State income tax revenues could decline by approximately \$100 million in fiscal 2003 as a result of the two provisions. (A portion of this loss would be reflected in lower Transportation Trust Fund revenues, based on the statutory allocation of State corporate income tax revenues.) *Senate Bill 323* includes a provision decoupling the Maryland income tax from these changes, requiring adjustments to federal adjusted gross income to reflect the determination of Maryland adjusted gross income without regard to these changes. Because the Bureau of Revenue Estimates has not incorporated this revenue loss into its forecast, decoupling technically does not result in any “additional” revenues at this time. If the State does not decouple, however, revenues would be revised downward by approximately \$100 million in the future.

## **Heritage Structure Rehabilitation Tax Credit**

### **Background**

During the 2001 interim, the General Assembly was advised by the Department of Legislative Services that the State could experience significant revenue losses in the near future under the Maryland Heritage Structure Rehabilitation Tax Credit (the heritage credit). The heritage credit, administered by the Maryland Historical Trust in the Department of Housing and Community Development, was established in 1996, expanded in 1997 and 1998, and made refundable in 2001. Based on information provided by the Maryland Historical Trust, under current law, it is projected that the heritage credit will reduce State revenues by \$50 million to \$84 million annually.

Under current law a person may claim a tax credit in an amount equal to 25 percent of the taxpayer's qualified rehabilitation expenditures for the rehabilitation of a certified heritage structure for the taxable year in which a certified rehabilitation is completed. The heritage credit is allowed for both residential and commercial projects and may be claimed by nonprofit organizations.

### **Legislative Response**

*House Bill 759 (passed)* significantly limits the Maryland Heritage Structure Rehabilitation Tax Credit. The bill reduces the credit percentage to 20 percent and provides that a State tax credit for a single rehabilitation under the program may not exceed \$3 million. Rehabilitation expenditures that qualify for the credit are limited to the estimated expenditures stated in the application for approval of a proposed rehabilitation submitted to the Maryland Historical Trust. *House Bill 759* also eliminates a loophole in the law under which the credit could be taken for expenditures financed by State grants and other State financing.

The bill further limits the use of the Heritage Credit by providing that a single rehabilitation includes the phased rehabilitation of the same structure and the rehabilitation of multiple structures that are functionally related. Additionally, *House Bill 759* repeals current law that authorizes the Maryland Stadium Authority to utilize the heritage credit on behalf of the Hippodrome Performing Arts Center. Financing of the Hippodrome Performing Arts Center was accommodated through increased bonding authority under the provisions of *House Bill 1256 (passed)*. A more extensive discussion of *House Bill 1256* may be found under the "Economic and Community Development" subpart under Part H of this *90 Day Report*.

To ensure that usage of the credit is monitored, *House Bill 759* requires extensive reporting by the Department of Housing and Community Development on a quarterly basis regarding complete and incomplete projects. The bill, which takes effect on June 1, 2002, "grandfathers" all incomplete projects for which an application has been submitted for approval of a proposed rehabilitation as of February 1, 2002 (the introduction date of the bill), and provides that these projects may take the credit under the law in effect on May 31, 2002.

*House Bill 759* also states that it is the intent of the General Assembly that Heritage Structure Rehabilitation Tax Credits for commercial rehabilitations not exceed \$50 million annually and requires the Department of Legislative Services to monitor approval of commercial rehabilitations eligible for the credit. If the approval of commercial rehabilitations under the credit in a calendar year would result in more than \$50 million in tax credits, the Department of Legislative Services is required to notify the General Assembly and to prepare legislation that would implement a \$50 million overall cap.

Lastly, *House Bill 759* provides a two-year sunset for the credit that will allow the General Assembly to evaluate the usage of the credit over the next two years and make a determination as to its continuation.

### **Estimated Cost of the Heritage Credit Under the New Legislation**

Information provided by the Maryland Historical Trust and the Comptroller indicates that for the commercial projects that have been “grandfathered” under *House Bill 759*, over \$139 million in outstanding heritage credits have not been claimed. The taxable year in which these outstanding credits would be claimed cannot be predicted but it is assumed that some will be claimed and reduce revenues as early as fiscal 2002.

The prospective revenue loss of a 20 percent credit with a \$3 million maximum credit as provided in *House Bill 759* is estimated to be between \$34 and \$51 million annually. This estimate includes residential and commercial projects and reduces the projected revenue loss by \$16 million to \$33 million annually.

### **Income Tax Treatment of Contributions to Qualified Tuition Programs**

#### **Background**

For several years Section 529 of the Internal Revenue Code has provided that individuals may receive federal income tax advantages for contributions to Qualified State Tuition Programs (QSTPs).

A QSTP is defined under federal law as a program established and maintained by a state under which an individual:

- may purchase tuition credits or certificates on behalf of a designated beneficiary that entitle the beneficiary to the waiver or payment of qualified higher education expenses of the beneficiary (a “prepaid tuition plan”); or

- may make contributions to an account that is established for the purpose of meeting the qualified higher education expenses of the designated beneficiary (a “savings plan”).

Maryland, like most states, has established both a prepaid tuition plan, the Maryland Prepaid College Trust, and a savings plan, the Maryland College Investment Program. Both plans are administered by the Maryland Higher Education Investment Program, an independent State agency governed by a nine-member board. Under current law a State tax deduction of \$2,500 is available for contributions made under a contract in the Maryland Prepaid College Trust and for contributions made to an account in the Maryland College Investment Program.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 made significant changes regarding Qualified State Tuition Programs, now referred to as “Qualified Tuition Programs” (QTPs) under Section 529 of the Internal Revenue Code. Under the newly amended federal law, distributions from QTPs for qualified higher education expenses are now tax exempt and QTPs may include prepaid tuition plans offered directly by educational institutions.

### **Issues Concerning the College Investment Plan**

Chapter 494 of 2001 established the Maryland College Investment Plan. The legislation provided that an individual may claim a subtraction modification (deduction) for contributions to the Maryland College Investment Plan. The subtraction modification was limited to \$2,500 for any taxable year “for each account” in the College Investment Plan. In setting up the College Investment Plan, the Maryland Higher Education Investment Program Board of Directors allowed individuals to establish up to ten separate accounts for a single beneficiary.

As marketed by the board, an individual could open ten accounts for a single beneficiary, and by contributing \$2,500 to each “account,” receive a total State income tax deduction of \$25,000 for the taxable year. In December 2001 questions arose as to whether the board’s interpretation of this provision was consistent with the statute. The Comptroller’s office indicated it would accept the board’s interpretation for tax year 2001 to avoid problems in the marketing of the plan, but advised that the General Assembly should address and clarify the issue for tax years after 2001.

Another issue was raised with respect to the treatment of federally tax-free “rollover” of funds from a QTP and an existing Maryland addition modification. The Maryland addition modification requires an addition to Maryland adjusted gross income of refunds or distributions from QTPs that are not used for qualified higher education expenses. It was unclear whether a tax-free rollover of funds should be included in the addition modification.

### Qualified Tuition Programs - State Income Tax Treatment

To address the issues raised in the 2001 interim and in light of the 2001 federal tax act, *Senate Bill 383/House Bill 437 (both passed)* clarify and alter existing State subtraction modifications for tax advantaged contributions to higher education prepaid tuition programs and investment programs.

Specifically, *Senate Bill 383/House Bill 437* allow for: (1) a subtraction modification of up to \$2,500 per contributor per beneficiary for contributions to any qualified prepaid tuition program under federal law; and (2) a subtraction modification of up to \$2,500 per contributor per beneficiary for contributions to any qualified higher education investment program under federal law. The bills expand the types of programs that qualify for the subtraction modifications to any qualified tuition program under Section 529 of the Internal Revenue Code. Under current law these subtraction modifications are limited to contributions made only to the Maryland Prepaid College Trust and the Maryland College Savings Plan.

*Senate Bill 383/House Bill 437* also clarify that the subtraction modifications as well as an existing addition modification do not include any amounts from a tax-free rollover from another prepaid tuition program or another higher education investment program.

General fund revenue losses could be mitigated significantly as a result of limiting the number of subtraction modifications that may be taken by one contributor for one beneficiary. The amount of savings depends on the number of accounts opened per beneficiary compared to current law. In addition, it is possible that revenues could also decrease as a result of making the current subtraction modifications applicable to contributions made to qualified tuition programs offered by educational institutions and other states. The net effect of the bills cannot be reliably estimated but could be significant.

## Subtraction Modifications

### Conservation Tillage Equipment

The Maryland income tax provides a subtraction modification equal to 100 percent of the expenses incurred by a taxpayer for the purchase and installation of conservation tillage equipment. *Senate Bill 447/House Bill 493 (both passed)* expand the definition of conservation tillage equipment for the purposes of the subtraction modification to include deep no-till rippers that do not invert the soil profile and are used to address compaction in high residue cropping systems. These items must be purchased after December 31, 2001, to be eligible for the subtraction.

### Retirement Income

*Senate Bill 399 (passed)* allows income from a rollover individual retirement account or annuity to be included within the subtraction modification allowed for retirement income from an employee retirement system if: (1) the contributions to the individual retirement account or annuity consist entirely of the tax-free rollover of distributions from an employee retirement system; and (2) the tax-free rollover resulted from the mandatory withdrawal of amounts in the employee retirement system. The fiscal impact cannot be reliably estimated because it is unknown how many distributions would be made from the limited type of rollover IRAs permitted under *Senate Bill 399*.

## Other Tax Credits

### Tax Credit for the Employment of Ex-Felons

*Senate Bill 454/House Bill 652 (both passed)* require the Department of Labor, Licensing, and Regulation (DLLR) to establish and administer a Pilot Program for the Long-Term Employment of Qualified Ex-Felons in consultation with the Governor's Workforce Investment Board. The pilot program is intended to provide incentives for the hiring of up to 150 qualified ex-felons each year through existing one-stop employment and training centers in at least two of the State's Workforce Investment Areas. The one-stop centers will work with community organizations and any State or local government entities that provide services to ex-felons and will also provide outreach and education to employers about the program.

A business entity that hires a qualified ex-felon through the pilot program will be able to obtain a one-year \$5,000 federal fidelity bond for the qualified ex-felon for the first year of employment.

*Senate Bill 454/House Bill 652* also allow a business entity to claim a tax credit for wages paid to a qualified ex-felon employee. For each taxable year, a credit is

allowed in an amount equal to: (1) 30 percent of the first \$6,000 of wages paid to the qualified ex-felon employee during the first year of employment; and (2) 20 percent of the first \$6,000 of wages paid to the qualified ex-felon employee during the second year of employment. The bills require DLLR to develop an evaluation process for the pilot program to determine whether it has secured stable employment for qualified ex-felons.

### **Aquaculture Oyster Floats**

*House Bill 1098 (passed)* allows an individual to claim a credit against the State income tax in an amount equal to 100 percent of the cost of an aquaculture oyster float. The credit may not exceed the lesser of \$500 or the individual's State income tax liability. Any unused amount may not be carried forward to another taxable year. *House Bill 1098* defines an aquaculture oyster float as a device that is: (1) purchased new; (2) specifically designed for the purpose of growing oysters at or under an individual homeowner's pier; and (3) constructed to be fully buoyant and facilitate the growth of oysters for the width of the pier.

### **Businesses That Create New Jobs**

*House Bill 707 (passed)* allows a business to qualify for an enhanced Businesses That Create New Jobs property tax credit in Montgomery County under certain conditions. The enhanced property tax credit results in an enhanced State tax credit that may be applied against the individual or corporate income tax or the insurance premium tax. The enhanced State credit may be claimed for a 12-year period in an amount equal to 31.5 percent of the property tax imposed on the increase in assessment on real and personal property. See a further discussion of this bill under the subpart "Property Taxes" within this Part B.

### **Neighborhood Preservation and Stabilization**

*House Bill 525 (passed)* extends until June 30, 2005, a tax credit for property taxes on owner-occupied residential property bought in designated neighborhoods in Baltimore County. The cost of the credit is split between the State and the local government with one-half of the credit amount being applied against the State income tax and the other half being a reduction in local property taxes owed. See a further discussion of this bill under the subpart "Property Taxes" within this Part B.

## Tax Administration

### Electronic Filing of Income Tax Returns

Maryland income tax law conforms to the Internal Revenue Code with regards to filing deadlines for income tax returns and payment of taxes owed. An individual or partnership required to file a return for a taxable year must complete and file with the Comptroller an income tax return: (1) on or before April 15 of the next taxable year; or (2) if the income tax is computed for a fiscal year, on or before the fifteenth day of the fourth month after the end of that year. To encourage use of electronic income tax returns, the federal government is considering extending the filing deadline for electronic returns. *Senate Bill 833/House Bill 1315 (both passed)* provide that if the due date for an electronically filed federal income tax return is later than April 15, the due date for an electronically filed Maryland income tax return is the same as the federal due date if the balance due with the Maryland return is paid electronically.

### Wage Liens

*Senate Bill 103 (passed)* conforms the statutory amount of money that is exempt from an income tax wage lien to the statutory amount that is exempt from a judgment lien under the Commercial Law Article. Under current law, if the Comptroller obtains a wage lien, the entire paycheck must be taken except for \$50 per week plus \$15 per dependent. Under current law this amount is typically too low, and almost 80 percent of the time taxpayers negotiate a payment plan. Rather than negotiating separate payment plans with each taxpayer, *Senate Bill 103* allows the Comptroller to start at a wage lien amount that is considered more reasonable.

### Claims for Refunds

*Senate Bill 38 (passed)* allows for the filing of a claim for refund or credit for overpayment of income tax that is established by a decision of an administrative board, or by an appeal of such a decision, within one year after the date of a final decision or an appeal of a final decision by an administrative board. *Senate Bill 38* also includes a retroactive provision that a claim for refund or credit for overpayment of income tax filed between January 1, 2000 and July 1, 2002, may not be denied on the basis of late filing of the claim if the claim is: (1) attributable to a right to a reduction in a person's Maryland income tax that is established by a decision of an administrative board; and (2) was filed within 18 months after the date of a final decision of the administrative board. This bill is the same as Senate Bill 344 of the 2001 session that was passed by the General Assembly but vetoed by the Governor.

### **Whole Dollar Amounts**

*House Bill 436 (passed)* requires the Comptroller to allow an income tax return to be completed using whole dollar amounts instead of expressing amounts in dollars and cents. Maryland income tax return instructions currently state that taxpayers may round off to the nearest whole dollar, and *House Bill 436* codifies this practice.

## **Sales Tax**

### **Reducing Vendor Commissions and Discounts in the Budget Reconciliation and Financing Act**

The Budget Reconciliation and Financing Act (BRFA), *Senate Bill 323 (passed)*, reduces the amount of the discounts or credits offered to the collectors of the various taxes discussed below, with the effect of increasing general fund, Transportation Trust Fund (TTF), and other special fund revenues.

#### **Sales Tax Vendor Credit**

BRFA alters the sales tax vendor credit for fiscal 2003 and 2004 only. Currently, the sales tax vendor credit is 1.2 percent of the first \$6,000 in tax collected and 0.9 percent of the excess collected each month. The bill reduces the credit by 50 percent, to 0.6 percent of the first \$6,000 in tax collected and 0.45 percent of the excess collected each month for those two years only. Net sales and use tax collections are estimated to be approximately \$2.5 billion in fiscal 2003. The amount of the vendor credit is estimated to be approximately 0.32 percent of net collections. As a result, it is estimated that general fund revenues will increase by approximately \$10.8 million in fiscal 2003 and \$11.1 million in fiscal 2004.

#### **Motor Vehicle Excise Tax Credit**

BRFA alters the motor vehicle excise tax credit for fiscal 2003 and 2004 only. Currently, licensed dealers are allowed to keep an amount equal to the lesser of 1.2 percent of the gross tax collected or \$24 per vehicle. The bill reduces the discount to 0.6 percent of the gross tax collected up to \$12 per vehicle for those two years only. Vehicle excise tax collections, after the discount, are estimated to be approximately \$612 million in fiscal 2003. Motor vehicle excise tax revenues are dedicated to the TTF. It is estimated that TTF revenues will increase by approximately \$2 million in fiscal 2003 and 2004.

### **Motor Fuel Tax Discount**

BRFA alters the motor fuel tax discount on an ongoing basis. Currently, dealers and sellers are allowed to retain 1 percent of the first 10 cents of their fuel tax liability per gallon as a discount to account for shrinkage and evaporation and for the costs associated with collecting and remitting the tax. The bill reduces the amount of the discount from 1 percent of the first 10 cents to 0.5 percent of the first 10 cents. Motor fuel tax collections are estimated to be approximately \$681.3 million in fiscal 2003. It is estimated that the discount is equal to approximately 0.2 percent of total revenues. Therefore, it is estimated that annual TTF revenues will increase by approximately \$1.4 million beginning in fiscal 2003. Future year motor fuel gallonage is assumed to be relatively flat.

### **Other Vendor Commissions**

BRFA also permanently reduces the vendor discounts for three smaller programs: the energy generation surcharge (collected and remitted by electric companies), the emergency telephone system (911) fee (collected and remitted by the telephone companies), and the tire recycling surcharge (collected and remitted by tire dealers). The savings from these reduced commissions will be captured by the respective special funds associated with these programs.

***Environmental Surcharge:*** The environmental surcharge is a surcharge levied on electric companies based on the number of kilowatt hours of electricity distributed within the State. These funds are dedicated to the Environmental Trust Fund. In fiscal 2001, approximately \$9.6 million was collected. The State provides electricity producers a discount equal to 1.5 percent of the surcharge paid. In fiscal 2001, this resulted in a total discount of approximately \$143,500. Under BRFA, the amount of the discount is reduced by one-half, to 0.75 percent, resulting in an increase in revenues of approximately \$77,300 beginning in fiscal 2003.

***Emergency Telephone Systems Fee:*** The emergency telephone systems fee is a fee of \$.10 per month paid by each telephone subscriber. Counties can charge up to an additional \$.50 per month. Telephone companies are granted a discount in the amount of 1.5 percent of the total collected for remitting the tax. In fiscal 2001, approximately \$31.2 million was collected. The amount of the discount was approximately \$470,000. BRFA reduces the discount to 0.75 percent, increasing revenues by approximately \$235,000 beginning in fiscal 2003.

***Tire Recycling Fee:*** The tire recycling fee is a fee imposed on each new tire sold. The current fee is 40 cents per tire. Sellers are granted a discount equal to 1.2 percent of the amount of the fee collected. In fiscal 2001, approximately \$2.1 million was collected. The total amount of the discount was approximately \$25,000. BRFA reduces the discount to 0.6 percent, increasing general fund revenues by approximately

\$13,000 for fiscal 2003 and 2004. Beginning in fiscal 2005, the tire recycling fee increases to \$1.00. As a result, revenues will increase by approximately \$31,000 due to the reduction of the collection discount.

For a more detailed discussion of *Senate Bill 323 (passed)*, see the subpart “Operating Budget” within Part A - Budget and State Aid of this *90 Day Report*.

## **Other Sales Tax Changes**

### **Taxable Price of Communications Services**

*House Bill 378 (passed)* provides that the taxable price of communications services does not include any charges for a nontaxable service that is made in connection with a sale of a taxable communication service, even if the nontaxable charges are aggregated with and not separately stated from the taxable charges for communications services, if the vendor can reasonably identify charges not subject to tax from its books and records that are kept in the regular course of business.

Telecommunications providers have the option of charging customers individually for various telecommunications services or bundling these services and charging a single price. Certain services are taxable, such as wireless telephone services and caller-ID features. Other services, such as local landline telephone service and Internet access, are not taxable. Under existing law, if a vendor were to offer bundled services, the sales tax would be applied to the entire bundled bill, including the components that would be nontaxable if billed individually.

### **Sales Tax on Utilities for Snow-Making**

*House Bill 553 (passed)* exempts from the sales and use tax the sale of electricity, fuel, and other utilities used to operate the machinery or equipment used to produce snow for commercial purposes.

### **Effective Rate Agreements and Direct Pay Permits**

Under *House Bill 1120 (passed)*, the Comptroller is authorized to enter into effective rate agreements that allow a vendor to compute sales and use tax liability for purchases made by the vendor for a specific period using a predetermined agreed-upon effective rate. The bill also authorizes the Comptroller to issue direct payment permits for vendors subject to an effective rate agreement.

The bill permits the Comptroller to enter into an effective rate agreement with a licensed vendor, eliminating the need to determine the liability on a transaction-by-transaction basis. Once the agreement is in place and the taxpayer has a

direct payment permit, sales and use tax on sales to the taxpayer is no longer collected by the vendor's suppliers. Instead, the vendor pays the tax directly to the Comptroller based on the vendor's total purchases and an applicable rate based on the agreed-upon share of those purchases that are taxable.

### Multifuel Pellet Stoves

The sale of a multifuel pellet stove designed to burn agricultural field corn is exempt from the sales and use tax under *Senate Bill 43 (passed)*.

### Tax-Free Weeks

Several bills were introduced to follow up on Chapter 576 of 2000, which exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item was less than \$100. All of this year's bills failed or were withdrawn.

The Comptroller's Office estimated that State sales tax revenue declined by approximately \$5.2 million as a result of Chapter 576, imputing total sales of approximately \$100 million that otherwise would have been taxable. Chapter 576 provided a tax-free week only for one week in August 2001. The bills introduced this year (all failed or withdrawn) offered several variations on items covered and application period, as illustrated below:

Bill Number	Items Covered	Applicable Period	One-time or Permanent	First Year Fiscal Impact
<i>House Bill 20 (failed)</i>	clothing and footwear less than \$100	Aug. 10 - 16, 2002	one-time	\$5.3 million
<i>House Bill 75 (withdrawn)</i>	clothing, footwear, and school supplies less than \$100	Aug. 10 - 16, 2002	one-time	\$9.4 million
<i>House Bill 76 (withdrawn)</i>	clothing, footwear, and school supplies less than \$100	Aug. 10 - 16	permanent	\$9.4 million

<b>Bill Number</b>	<b>Items Covered</b>	<b>Applicable Period</b>	<b>One-time or Permanent</b>	<b>First Year Fiscal Impact</b>
<i>House Bill 103 (failed)</i>	personal computers	Feb. 1 - 7, 2003	one-time	\$5.1 million
<i>Senate Bill 17 (failed)</i>	textbooks less than \$150; school supplies less than \$100	last Thursday in August through first Wednesday in September	permanent	\$5.3 million
<i>Senate Bill 29 (failed)</i>	clothing, footwear, and school supplies less than \$100	second Friday to following Thursday of August	permanent	\$9.4 million
<i>Senate Bill 520 (failed)</i>	clothing, footwear, and school supplies less than \$101	Aug. 16 - 22, 2002	one-time	\$9.5 million

## Miscellaneous Taxes

### Inheritance and Estate Taxes

The Budget Reconciliation and Financing Act, *Senate Bill 323 (passed)*, partially decouples the State estate tax from the federal estate tax. The federal Economic Growth and Tax Reconciliation Act of 2001 reduces and ultimately repeals the amount of the credit allowed under the federal estate tax for state death taxes paid (“federal credit”). Maryland, like most states, has an estate tax that is linked to the federal credit. The phase-out of the federal credit under the 2001 federal tax act will eliminate the State estate tax because the State tax is linked to the federal tax. *Senate Bill 323* continues the Maryland estate tax without reduction. The bill provides that other provisions of federal estate tax law, including the applicable unified credit (tax liability threshold for the estate tax) allowed against the federal estate tax, are those in effect on the date of the decedent’s death. Under the federal act, the amount of the unified credit is increased from \$700,000 to \$1 million in 2002. By 2009, the unified credit will be \$3.5 million under the federal tax act (versus \$1 million under prior law). In doing so, the federal act raises the threshold at which estates become subject to the federal estate tax. This higher taxability threshold will also apply to the State estate tax and is not affected by this bill.

As a result of the federal tax act, without statutory changes the Maryland estate tax would diminish and disappear as the federal credit phases out. As a result of the repeal of the federal credit, together with the phased increase in the unified credit allowed under the federal estate tax, the State would be projected to lose up to \$100 million annually by fiscal 2007. Under *Senate Bill 323*, the Maryland estate tax is partially decoupled from the changes made to the federal credit under the 2001 federal tax act. The State estate tax will be calculated as if the federal tax act had not phased-out the federal credit.

The partial decoupling under this bill preserves a portion of Maryland's estate tax revenue notwithstanding the phase-out and repeal of the federal credit. Based on the nine-month lag between date of death and payment of estate taxes, it is estimated that the partial decoupling will raise \$20.6 million in fiscal 2003. As illustrated by **Exhibit B.1**, by fiscal 2007, this recoupment is estimated at \$82.1 million. Because of the increases in the unified credit effective exemption amount, under *Senate Bill 323* the State would still lose roughly \$18 million in estate tax revenues in that year as a result of the federal tax act.

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**Exhibit B.1**  
**Impact of Federal Tax Act on Maryland Estate Tax Revenues/  
 Potential Revenue Recouped from Senate Bill 323**  
 (\$ in Millions)

<u>Fiscal Year</u>	<u>Total State Impact of Federal Tax Act</u>	<u>Revenue Recouped from SB 323 by Decoupling from Federal Credit</u>	<u>Revenue Loss from Increased Unified Credit</u>
2003	(\$27.2)	\$20.6	(\$6.6)
2004	(59.3)	48.7	(10.6)
2005	(83.6)	77.9	(5.7)
2006	(97.3)	82.3	(15.0)
2007	(100.0)	82.1	(17.9)

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*Senate Bill 323* also decouples from the federal income tax related to certain changes made by the federal Economic Growth and Tax Relief Reconciliation Act of 2001 and the Job Creation and Worker Assistance Act of 2002.

For a more detailed discussion of this bill, see the subpart “Operating Budget” under Part A - Budget and State Aid of this *90 Day Report*. For a more detailed discussion of the income tax decoupling, see the subpart “Income Tax” under this Part B.

## Cigarette Tax

*Senate Bill 856 (passed)*, the Bridge to Excellence in Public Schools Act, enhances funding for education based on a framework established by the Commission on Education Finance, Equity, and Excellence. A portion of the enhancements is funded with a 34-cent increase in the tobacco tax rate for cigarettes.

*Senate Bill 856* increases the tobacco tax rate for cigarettes from 66 cents to \$1. All cigarettes held in the State on or after June 1, 2002, for sale or use in the State are subject to the full cigarette tax. A special fund is established with the first \$80.5 million in revenues collected from the rate increase in fiscal 2003, and any funds above \$80.5 million are placed in the State’s general fund. All cigarette tax receipts after fiscal 2003 will be placed in the general fund. By January 15, 2003, the Comptroller of the Treasury must report on the loss of gross sales revenues of retail establishments that sell cigarettes and are located within 30 miles of the State’s border. The 34-cent cigarette tax imposed by the bill is estimated to increase cigarette tax revenues by approximately \$101.4 million in fiscal 2003, which includes the “floor tax,” (a tax on floor stocks), and by \$71 million in fiscal 2004, \$70.3 million in fiscal 2005, \$69.5 million in fiscal 2006, and \$68.7 million in fiscal 2007.

Maryland increased its tax on cigarettes three times during the 1990s: in 1991 from 13 to 16 cents; in 1992 from 16 to 36 cents; and in 1999 from 36 to 66 cents.

For a more detailed discussion of this bill, see the subpart “Primary and Secondary Education” under Part L - Education of this *90 Day Report*. Based on the enactment of the cigarette tax increase, additional spending for fiscal 2003 is authorized in *Senate Bill 323*. For a more detailed discussion of that bill, see the subpart “Operating Budget” under Part A - Budget and State Aid of this *90 Day Report*.

## Commission on Maryland’s Fiscal Structure

*House Bill 1 (passed)* is an emergency bill establishing a 17-member Commission on Maryland’s Fiscal Structure to review and evaluate the State’s current budget and fiscal structure. This evaluation will be an effort to help the Governor and General Assembly better develop long-term strategies for addressing future budget needs and shortfalls in the areas of funding education, transportation, and health care. The commission must submit an interim report on December 15, 2002, and a final report September 1, 2003. Staff support for the commission must be provided by the

Department of Legislative Services, the Department of Business and Economic Development, and the Comptroller's Office.

Specifically, the commission will review: (1) changes to the State budget process, spending affordability process, and capital debt affordability process that would allow for more effective development and enactment of the annual State budget; (2) options to ensure that the State will have a progressive tax structure through examination of the income, sales, property, excise, and business taxes, including any changes that may be necessary to ensure equity and efficiency in the State's tax system; (3) methods to address funding sources for the education needs outlined in the report of the Commission on Education Finance, Equity, and Excellence, the transportation needs outlined in the report of the Commission on Transportation Investment, and the health care funding needs outlined in recent years; (4) options to address inefficiencies in and improvements to State government services and operations; and (5) changes to the State's tax structure that would allow the State to be more competitive with surrounding states regarding economic development.

## **Recordation and Transfer Taxes**

### **Transfer Tax**

The Budget Reconciliation and Financing Act, *Senate Bill 323*, transfers \$11,227,425 in excess actual transfer tax collections for fiscal 2001 to the general fund and \$47,268,585 in transfer tax revenues to the general fund for each of fiscal 2003 and 2004 only.

### **Recordation Tax – Refinancing Instrument**

*House Bill 512 (passed)* authorizes an agent of a mortgagor to provide a written statement that would qualify a mortgage refinancing instrument for an exemption from recordation tax. The agent must provide a signed statement that the mortgage property is the principal residence of the mortgagor and stating the amount of the unpaid principal of the original mortgage that is being financed.

### **Controlling Interests**

*Senate Bill 316/House Bill 557 (both failed)* would have imposed recordation and transfer taxes on the transfer of real property, with a value of \$500,000 or more, when the transfer is achieved through the sale of a "controlling" interest in a corporation, partnership, limited liability company, limited liability partnership, or other form of unincorporated business. "Controlling" interest was defined in *Senate Bill 316* as more than 50 percent of total value of the stock or the interest in capital and profits and defined

in *House Bill 557* as more than 80 percent of total value of the stock or the interest in capital and profits.

The bills specified: (1) that they applied to transfers of controlling interests by entities having tangible assets of which at least 80 percent are comprised of real property in Maryland; (2) that certain transfers (e.g., mergers and dissolutions) would be exempt; and (3) that a report must be filed with the Department of Assessments and Taxation upon the transfer of a controlling interest within 30 days of the final transfer.

It was estimated that these bills would have generated an additional \$4.8 million in State transfer tax revenue in fiscal 2003 and \$9.6 million annually thereafter. In addition, it was estimated that these bills would have produced an additional \$16 million in local recordation and transfer tax revenues in fiscal 2003 and \$32 million annually thereafter. The Budget Reconciliation and Financing Act (*Senate Bill 323*) would have transferred \$4.8 million in transfer taxes to the general fund contingent on enactment of these bills.

### **Local Telecommunications Tax – Prince George’s County**

Legislation passed during the 2002 session to restructure the Prince George’s County School Board also requires the Prince George’s County Council to impose, by ordinance, and collect a telecommunication tax at a rate of not less than 5 percent. The proceeds of the tax authorized by *House Bill 949 (passed)* may be used only for operating expenditures of the Prince George’s County school system.

It is estimated that this local telecommunications tax will raise from \$21 million to \$32 million, depending on the rate imposed. Under the bill, the tax generally applies to telecommunications service either that originates and terminates in Prince George’s County or that originates or terminates in Prince George’s County and has a service address in Prince George’s county. For mobile telecommunications service covered by the federal mobile Telecommunications Sourcing Act, the tax applies to the fullest extent authorized under that act. The bill specifies that the tax does not apply to prepaid telephone calling arrangements or to telecommunications services provided to charitable organizations, governments, and other organizations to whom sales are exempt from the State sales and use tax.

For a more detailed discussion of this bill, see the subpart “Primary and Secondary Education” under Part L - Education of this *90 Day Report*.

### **Boxing and Wrestling Tax**

All taxes administered by the Comptroller, except the boxing and wrestling tax, are subject to an appeals process under current law if a taxpayer disputes a notice of

assessment or denial of a refund. *House Bill 152 (passed)* provides that persons subject to the boxing and wrestling tax who receive a notice of assessment from the Comptroller may use the appeals process that is applicable to persons subject to other taxes administered by the Comptroller.

## **Miscellaneous Taxes – Local**

### **Charles County – Public School Construction Excise tax**

*Senate Bill 628/House Bill 1017 (both passed)* alter the financing mechanism for construction of new public schools in Charles County by repealing the existing impact fee and establishing instead an excise tax on new residential development in the county. Under the bills, Charles County may borrow a maximum of \$100,000,000 by issuing the county's general obligation bonds. The revenues derived from the excise tax will be dedicated to repaying the bonds. The maximum excise tax is limited based on the different types of new residential development in the county.

### **Prince George's County – Special Taxing Districts and Tax Increment Financing**

*Senate Bill 903 (passed)* adds to the definition of bonds for purposes of special taxing districts and tax increment financing districts specified bonds issued by the Revenue Authority of Prince George's County. The bill allows bond proceeds to be used for the costs of: (1) convention centers; (2) conference centers; (3) visitor's centers; (4) maintenance of infrastructure improvements, convention centers, conference centers, and visitor's centers; and (5) marketing the special taxing district's facilities and other improvements. The bill authorizes Prince George's County to use the hotel tax to finance special tax district and tax increment financing district costs. Finally, the bill provides that any remaining funds in a special taxing district after the repayment of bonds may be: (1) used for infrastructure improvements in the special taxing district; (2) accumulated for payment of debt service on bonds subsequently issued for the special taxing district; (3) paid or reimbursed to the county for debt service which the county is obligated to pay on bonds issued by the State, the proceeds of which have been used for the special taxing district; or (4) paid to the county to provide funds to be used for any legal purpose.