Maryland: Governor signs bill granting a potential $37.5 million tax credit

David M. Kall | Thursday, May 19, 2016

Last week, Gov. Larry Hogan signed **S.B. 1112**, a measure that allows certain aerospace, electronics, or defense contract projects to claim a state income tax credit of $250 multiplied by the number of new qualifying employees hired. The maximum credit per contractor is $2.5 million, with an aggregate total cap for the state of $7.5 million per year.

The projects must create or retain at least 10,000 qualified positions, spend at least $25 million in qualifying expenditures, and result from a new project located in the state of Maryland, in connection with an aerospace, electronics, or defense contract.

A qualifying position is one that is filled for at least one year, and that has a minimum full-time annual salary of $85,000, including benefits.

In the case of a reduction of the rolling average number of qualified employees over the past two years, the state will recalculate and proportionately reduce any credit, and require the business to reimburse the state accordingly. In addition, if at any time the number of qualified positions drops below 9,000 for the past two years, the state will require the business to reimburse the full amount of the earned tax credit. As further verification, the firm must provide data to the state for the three taxable years following the credit year.

SB 1112 applies to all taxable years beginning after Dec. 31, 2015, and if the General Assembly does not take further action, it will expire on June 30, 2021.

Noting that Northrop Grumman is the main beneficiary of the bill and stands to collect a $37.5 million tax credit, the ***Baltimore Sun*** pointed out the somewhat typical arguments between lawmakers. Supporters like the law it on the grounds that it is needed to form a partnership with one of Maryland's most important corporations by helping it compete with rivals receiving tax breaks from other states. Opponents characterize it as corporate welfare for a company that is already prosperous, and that would not protect against a subsequent departure once Northrop satisfies the conditions of the credit.

Tax subsidies nationally

Good Jobs First, a policy resource center that promotes government and corporate accountability, describes these kinds of subsidies as the most poorly disclosed tax breaks because most states do not require corporations to make their returns public. On the other hand, they are often based on actual results, not intentions and aspirations, so there is some recourse if a company fails to live up to its goals.

Regardless of the potential drawbacks, a Good Jobs First **study of megadeals**, defined as those awards with a total state and local cost of $75 million or more each, reveals that already in 2016, three states have enacted megadeals totaling almost $1 billion. These are:

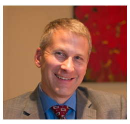
1. Mississippi: $595.5 million to Continental Tire the Americas, LLC, a commercial vehicle tire manufacturing plant
2. Arkansas: $167.5 million to Shandong Sun Paper Industry, a pulp mill
3. Massachusetts: $145 million to General Electric

From 2010 through and including 2015, states awarded a total of nearly $50 billion, as follows:

YEAR	AGGREGATE AMOUNT	TOP 3 RECIPIENTS, AMOUNTS RECEIVED, AWARDING STATES and % of AGGREGATE TOTAL
2015	$4.8 billion	1. Lake Charles LNG Export Company, LLC: $1.7 billion from Louisiana, 37% 2. Sabine Pass Liquefaction, LLC: $405 million from Louisiana, 8.42% 3. Faraday Future (plant for electric automobiles): $335 million from Nevada, 7%
2014	$8.9 billion	1. Intel: $2 billion from Oregon, 22.2% 2. Tesla Motors: $1.2 billion from Nevada, 14.3% 3. SolarCity Corporation: $750 million from New York, 8.3%
2013	$17 billion	1. Boeing: $8.7 billion from Washington, 49.8% 2. Sempra Energy: $2.1 billion from Louisiana, 12.5% 3. Cerner Corp.: $1.6 billion from Missouri, 9.3%
2012	$6.5 billion	1. Nike: $2 billion from Oregon, 30.9% 2. Royal Dutch Shell: $1.6 billion from Pennsylvania, 25.2% 3. Amazon.com: $269 million from Texas, 4.1%
2011	$4.6 billion	1. Nebraska Furniture Mart (owned by Berkshire Hathaway): $802 million from Texas, 17.4% 2. Cornell University/Technion-Israel Institute of Technology: $400 million from New York, 8.7% 3. General Motors: $336 million from Missouri, 7.3%
2010	$7.5 billion	1. Ford Motor: $2.3 billion from Michigan, 30.3% 2. Cheniere Energy: $1.7 billion from Louisiana, 22.3% 3. Chrysler: $1.3 billion from Michigan, 17.1%

In 2014, Northrup Grunman received a $471 million tax break from the state of Florida, making it the fourth largest credit for that year.

Good Jobs First concedes that there are benefits associated with corporate subsidies, but they can be very expensive and harmful to state budgets. Stakeholders should scrutinize these deals carefully, because there is an inevitable trade-off between funding for services and programs versus subsidies.



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