



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.