

FEDERALSBURG ENTERPRISE ZONE GUIDE

May 2022



OVERVIEW

- The Enterprise Zone program provides real property and state income tax credits for businesses located in the Federalsburg Enterprise Zone in return for job creation and real investments. The program is a State of Maryland incentive program with participating agencies: State Department of Taxation and Assessment (SDAT), Maryland Department of Commerce, Comptroller of Maryland.
- The Enterprise Zone is administered by Caroline County Economic Development (410-829-2763, info@carolinebusiness.com)
- Two types of benefits:
 - Real Property Tax Credits (based on improvements to property)
 - State Income Tax Credits (based on employment)



REAL PROPERTY TAX CREDITS

- Based on increase in assessed value due to improvements to the property
- Applies to Town and County real property taxes
- Requires a minimum of \$100,000 investment in real property improvements
- Applicable to commercial and industrial property uses; mixed-use properties are eligible, but the benefits apply to the commercial portion only
- 10-year, tiered reduction in the assessment value to calculate real property taxes. Years 1 – 5 80% reduction, Year 6 70% reduction, Year 7 60% reduction, Year 8 50% reduction, Year 9 40% reduction, Year 10 30% reduction

EXAMPLE

- The ML Company owns 5 acres of raw land that is assessed at \$100,000 (this is the “baseline” assessment). ML Company builds a new 20,000 sq. ft. warehouse/office space. After construction is done, the new assessed value of the property is \$2.5 Million, an increase of \$2.4 Million. Property tax rate is \$1.76 per \$100 assessed value, and the property taxes are \$44,500 per year on the new assessed value of \$2.5 Million.
- However, before construction, ML Company became Federalsburg Enterprise Zone certified with Caroline County Economic Development. With this certification, ML Company will pay property taxes on a significantly lower assessed value for the first 10 years.
- The Enterprise Zone Real Property Tax Credits apply to the *incremental* increase in assessment of \$2.4 Million (this is the “eligible” assessment). For years 1 through 5 the “eligible” assessment of \$2.4 Million is reduced 80% to \$1,920,000; year 6 assessment is reduced 70% to \$1,680,000; year 7 assessment is reduced 60% to \$1,440,000; year 8 assessment is reduced 50% to \$1,200,000; year 9 assessment is reduced 40% to \$960,000; and year 10 assessment is reduced 30% to \$720,000. The reduction in the assessed value for 10 years decreases the taxes owed each year.
- Because ML Company is certified, the property taxes in total for 10 years are \$166,908, saving \$277,600 over the 10-year time. If ML Company was not certified, it would pay \$445,000 for 10 years in property taxes.



REAL PROPERTY TAX CREDIT EXAMPLE ML COMPANY						
"Baseline" assessment = \$100,000						
New assessment after improvements = \$2,500,000						
"Eligible" assessment = \$2,400,000						
Town and County Property Tax Rate (per \$100 assessed value) = \$1.78						
Property taxes without Enterprise Zone tax credits = \$44,500 annually						
Year	% reduction	Reduction of "eligible" assessment	Per \$100 assessed	Property Tax Rate	Tax Savings	Tax Owed
1	80%	$\$2,400,000 \times .8 = \$1,920,000$	$\$1,920,000 / \$100 = \$19,200$	\$1.78	$\$19,200 \times 1.78 =$ \$34,176	$\$44,500 - \$34,176 =$ \$10,324
2	80%	$\$2,400,000 \times .8 = \$1,920,000$	$\$1,920,000 / \$100 = \$19,200$	\$1.78	$\$19,200 \times 1.78 =$ \$34,176	$\$44,500 - \$34,176 =$ \$10,324
3	80%	$\$2,400,000 \times .8 = \$1,920,000$	$\$1,920,000 / \$100 = \$19,200$	\$1.78	$\$19,200 \times 1.78 =$ \$34,176	$\$44,500 - \$34,176 =$ \$10,324
4	80%	$\$2,400,000 \times .8 = \$1,920,000$	$\$1,920,000 / \$100 = \$19,200$	\$1.78	$\$19,200 \times 1.78 =$ \$34,176	$\$44,500 - \$34,176 =$ \$10,324
5	80%	$\$2,400,000 \times .8 = \$1,920,000$	$\$1,920,000 / \$100 = \$19,200$	\$1.78	$\$19,200 \times 1.78 =$ \$34,176	$\$44,500 - \$34,176 =$ \$10,324
6	70%	$\$2,400,000 \times .7 = \$1,680,000$	$\$1,680,000 / \$100 = \$16,800$	\$1.78	$\$16,800 \times 1.78 =$ \$29,904	$\$44,500 - \$29,904 =$ \$14,596
7	60%	$\$2,400,000 \times .6 = \$1,440,000$	$\$1,440,000 / \$100 = \$14,400$	\$1.78	$\$14,400 \times 1.78 =$ \$25,632	$\$44,500 - \$25,632 =$ \$18,868
8	50%	$\$2,400,000 \times .5 = \$1,200,000$	$\$1,200,000 / \$100 = \$12,000$	\$1.78	$\$12,000 \times 1.78 =$ \$21,360	$\$44,500 - \$21,360 =$ \$23,140
9	40%	$\$2,400,000 \times .4 = \$960,000$	$\$960,000 / \$100 = \$9,600.00$	\$1.78	$\$9,600 \times 1.78 =$ \$17,008	$\$44,500 - \$17,008 =$ \$27,000
10	30%	$\$2,400,000 \times .3 = \$720,000$	$\$720,000 / \$100 = \$7,200.00$	\$1.78	$\$7,200 \times 1.78 =$ \$12,816	$\$44,500 - \$12,816 =$ \$31,684
				TOTALS	\$277,600	\$166,908

CERTIFICATION PROCESS

Your business and/or property must be located within the Federalsburg Enterprise Zone.

- The zone encompasses most commercial and industrial properties within the town limits of Federalsburg. If you are unsure if your property is within the zone, please contact the Caroline County Economic Development at 410-829-2763.

Timing is extremely important for the Federalsburg Enterprise Zone certification application.

- The business entity that wants to take advantage of the real property tax credits **must** be certified by Caroline County Economic Development before making any changes to the property that would increase the assessed value because such changes could impact the “baseline” assessed value.
- The purpose of the certification is to determine whether a business, property, or developer is eligible for Maryland Enterprise Zone tax credits. If determined to be eligible, you will receive a certification letter from the Caroline County Economic Development.
- Certifications are being accepted for the next eligible property tax year (beginning July 1, 2022) through December 31, 2022. (The certification deadline for tax year 2022 closed on December 31, 2021.)



INCOME TAX CREDIT

- \$1,000 per qualified employee
- Qualified employee means: an employee hired after the business entity is certified, works at least 35 hours a week, earns at least 120% of state minimum wage.
- There are additional income tax credits for “economically disadvantaged workers;” please contact Caroline County Economic Development, info@carolinebusiness.com, 410-829-2763 for more details.
- You can reapply for certification annually in order to capture each new job created in the prior year.



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- The purpose of the certification is to determine whether a business, property, or developer is eligible for Maryland Enterprise Zone tax credits. If determined to be eligible, you will receive a certification letter from the Caroline County Economic Development.
- The business entity that wants to take advantage of the state income tax credits **must** be certified by Caroline County Economic Development before hiring a qualified employee.
- Certifications are being accepted for the next eligible income tax year through December 31, 2022. (The certification deadline for tax year 2021 closed on December 31, 2021.)





410-829-2763

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