

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 650 (Senator Roesser)
 Budget and Taxation

Income Tax Credit - Energy-Efficient Homes

This bill allows a credit against the State income tax for an individual who purchases a “certified energy-efficient new home.” The amount of the credit allowed depends on the energy efficiency rating of the new home. Any unused portion of the credit may be carried forward for up to three taxable years. The Maryland Energy Administration (MEA) is required to adopt regulations in consultation with the U.S. Environmental Protection Agency regarding application forms and procedures for credit eligibility certificates. The MEA may not issue credit certificates totaling more than \$15 million during calendar 2002 through 2006, and may not issue a credit certificate after December 31, 2006.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2000 but before January 1, 2007. The bill sunsets June 30, 2007.

Fiscal Summary

State Effect: Maximum general fund revenue decrease of \$15 million from FY 2003 through FY 2007. The per year decrease depends on the number of Energy Star homes bought in a given year and the amount of the credits. General fund expenditures of approximately \$45,800 in FY 2002. Future year expenditures reflect annualized salaries, turnover, and inflation.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$0	-	-	-	-
GF Expenditure	45,800	49,400	53,400	57,600	62,200
Net Effect	(\$45,800)	(\$49,400)	(\$53,400)	(\$57,600)	(\$62,200)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None. The credit is claimed against the State income tax only.

Small Business Effect: Potential meaningful. To the extent that small businesses are involved in the construction of Energy Star homes, contracting, or Energy Star verification, they could benefit as a result of an increased demand for their services.

Analysis

Bill Summary: A certified energy-efficient new home is any single-family residential building certified under the U.S. Environmental Protection Agency (EPA) Energy Star program that is completed for occupancy on or after January 1, 2002. An individual may claim a credit against the State income tax for such a home provided that: (1) the property is located in the State; (2) the original use of the property commences with the taxpayer; (3) within 60 days of the original use, the property is the principal residence of the taxpayer; and (4) before the original use commences, an individual qualified to determine compliance certifies the property as being 30% property, 40% property, or 50% property.

The amount of the credit that may be claimed for the purchase of a certified energy-efficient new home depends on the energy usage of the property compared to the energy usage of a reference house that complies with minimum standard practice called for under the 1995 Model Energy Code. As a result, the amount of the credit is equal to:

- \$1,000 if the property qualifies as 30% property.
- \$1,500 if the property qualifies as 40% property.
- \$2,000 if the property qualifies as 50% property.

Current Law: No tax credit of this type exists under the Maryland income tax.

Background: Energy Star is a national, voluntary program that promotes energy-efficient products. A home with an Energy Star label is determined to be at least 30% more efficient in its heating, cooling, and water heating than a comparable home built to the Model Energy Code. Homes that are labeled as Energy Star, including site built, manufactured, and modular, also receive an outside evaluation, or third party verification, to ensure that the Energy Star standard has been met. Homes are not labeled as Energy Star homes until they been verified by a third party and have met specified energy efficiency criteria. These are primarily new homes, but an existing home can also be rated and labeled.

Energy Star verification can be achieved through either the Home Energy Ratings System (HERS) or Builder Option Packages (BOPs). A HERS rating is an evaluation of the energy efficiency of a home, compared to a computer-simulated reference house (of identical size and shape as the rated home) that meets the minimum requirements of the Model Energy Code. A Builder Option Package represents a set of construction specifications for a specific climate zone. BOPs specify performance levels for the thermal envelope, insulation, windows, orientation, HVAC system, and water heating efficiency for a specific climate zone that meet the Energy Star standard. (For the purposes of using BOPs, the U.S. has been divided in 19 separate climate zones.)

According to the EPA there are six companies that perform Energy Star verifications in Maryland. Also, there are eight builders in the State that are certified to build Energy Star homes. In the past 12 months, these builders have built 310 homes.

State Fiscal Effect: The cost of the bill cannot be reliably estimated and depends on the number of Energy Star homes that are purchased and the amount of the credits claimed. However, the maximum amount of credits that may be allocated and claimed from fiscal 2002 through fiscal 2007 is \$15 million, meaning that the maximum number of homes that could qualify for the credit (assuming the minimum \$1,000 credit) is 15,000 over that period. The bill is effective for tax year 2001, although the credit can only be claimed for homes completed and ready for occupancy beginning in tax year 2002. Therefore, it is assumed that credits will not be available until fiscal 2003.

MEA advises that general fund expenditures could increase by an estimated \$54,300 in fiscal 2002, due to the bill's requirement to have regulations drafted by October 1, 2001. This estimate reflects the cost of hiring one administrative specialist to administer the tax credit program created by the bill, which would include establishing certification requirements and writing regulations.

The Department of Legislative Services advises that because this a six-year program only, it would be more cost-effective to hire a full-time contractual person to carry out the necessary duties. As a result, general fund expenditures would increase by approximately \$45,800 in fiscal 2002. Future year expenditures reflect: (1) full salaries with a 2.3% increase annually, with 3.8% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland Energy Administration, U.S. Environmental Protection Agency, Department of Legislative Services

Fiscal Note History: First Reader – March 3, 2001
ncs/jr

Analysis by: Michael Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510