

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 1198 (Delegate Myers, *et al.*)
 Ways and Means

Income Tax Credit - Renewable Energy Systems

This bill creates a tax credit against the State income tax for 15% of the costs of purchasing and installing certain renewable energy systems. The credit may be claimed by a business or an individual. The Comptroller’s Office is required to adopt regulations to implement the credit.

The bill takes effect July 1, 2013, and applies to tax year 2013 and beyond.

Fiscal Summary

State Effect: State revenues will decrease significantly and likely by at least \$20 million annually beginning in FY 2014 due to the tax credit. General fund expenditures increase by \$103,400 in FY 2014 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF/SF Rev.	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$20.1)	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)

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

Local Effect: Local highway user revenues distributed from the Transportation Trust Fund will decrease as a result of credits claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill provides a tax credit for the cost of purchasing and installing the following renewable energy systems: (1) fuel cell; (2) geothermal heat pumps; (3) solar electric; (4) solar water heating; or (5) wind energy. Fuel cell systems must meet specified standards under the Internal Revenue Code and geothermal heat pump systems must meet the requirements of the federal Energy Star program in effect at the time of purchase.

Current Law: No similar State income tax credit exists. However, a federal tax credit is available for certain energy property as discussed below.

Background: A federal income tax credit may be claimed for certain residential energy property. For most systems, the property must be installed in the principal residence of the taxpayer. **Exhibit 1** shows the types of property that qualify for the credit and the value of the credit for each category of property.

Exhibit 1 Federal Income Tax Credits For Residential Energy Property

	<u>Category I</u>	<u>Category II</u>	<u>Category III</u>
Qualifying Systems	Biomass HVAC Roofs Water heaters (nonsolar) Windows and doors	Geothermal heat pumps Residential wind turbines Solar energy	Fuel cells
Credit Percentage	10%	30%	30%
Maximum Credit	\$50 – \$300	none	\$500 per 0.5 kW

In tax year 2010, 177,700 Maryland income tax returns claimed a total of \$173.5 million in federal energy tax credits.

In addition to the credits available for residential energy property, businesses that install energy property can qualify for federal tax incentives. Home builders are eligible for a \$2,000 tax credit for a new energy efficient home that achieves certain energy savings. A credit also applies to qualifying manufactured homes. A tax deduction of up to \$1.80 per square foot is available to owners or designers of new or existing commercial buildings that achieve certain energy savings.

State Clean Energy Grant Program

The Clean Energy Grant Program is a comprehensive grant program that is part of the Maryland Energy Administration’s Strategic Energy Investment Program. It receives an annual appropriation from the Strategic Energy Investment Fund, which is funded primarily with proceeds from the sale of carbon dioxide emission allowances under the Regional Greenhouse Gas Initiative.

Grant amounts are currently \$1,000 per solar photovoltaic project, \$500 per solar water heating project, and \$3,000 per geothermal heating and cooling project, subject to specified project size limitations. Grants are allocated in the order of approved applications across technologies and subject to change in amount and existence based on funding availability. Grants are also made to eligible commercial customers for solar photovoltaic, solar water heating, and geothermal heating and cooling projects. **Exhibit 2** shows grant activity in calendar 2011 and 2012 for solar photovoltaic, solar water heating, and geothermal projects for both residential and commercial customers. The majority of grants made have been for residential projects.

Exhibit 2
Clean Energy Grant Program Activity
Calendar 2011-2012

	Calendar 2011		Calendar 2012	
	<u>Number of Grants</u>	<u>Amount Paid</u>	<u>Number of Grants</u>	<u>Amount Paid</u>
Solar Photovoltaic				
Commercial Renewable Grants	71	\$1,351,572	77	\$1,443,800
Residential Renewable Grants	839	2,572,320	1,144	2,390,397
<i>Subtotal</i>	<i>909</i>	<i>\$3,923,891</i>	<i>1,221</i>	<i>\$3,834,197</i>
Solar Hot Water				
Commercial Renewable Grants	1	\$1,160	1	\$1,000
Residential Renewable Grants	231	280,459	279	141,000
<i>Subtotal</i>	<i>232</i>	<i>\$281,619</i>	<i>280</i>	<i>\$142,000</i>
Total Solar	1,141	\$4,205,510	1,501	\$3,976,197
Geothermal				
Commercial Renewable Grants	5	23,500	2	9,500
Residential Renewable Grants	593	1,103,250	540	922,250
Total Geothermal	598	\$1,126,750	542	\$931,750

Note: Numbers may not sum to total due to rounding.
Source: Maryland Energy Administration

State Revenues: Tax credits may be claimed beginning in tax year 2013. Accordingly, general fund revenues will decrease significantly beginning in fiscal 2014. Based on the amount of grants issued by MEA's Clean Energy Grant Program and the additional benefit provided by the proposed tax credit, it is likely that State revenues will decrease by at least \$20.0 million annually beginning in fiscal 2014.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$103,400 in fiscal 2014 to add the credit to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Internal Revenue Service, Maryland Energy Administration, Public Service Commission, Department of Legislative Services

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