

Department of Legislative Services  
Maryland General Assembly  
2014 Session

FISCAL AND POLICY NOTE

House Bill 1180  
Ways and Means

(Delegate Hixson, *et al.*)

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Income Tax Credit - Environmental Improvement Equipment

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This bill creates a tax credit against the State income tax for businesses that manufacture environmental improvement equipment designed to reduce or avoid air pollution, greenhouse gas emissions, or water pollution. A qualified taxpayer may claim a State income tax credit of \$5,000, or \$15,000 for any taxpayer that begins environmental improvement equipment manufacturing operations in the State after December 31, 2014. The Maryland Department of the Environment (MDE) is required to identify the products that qualify for the tax credit. MDE and the Comptroller are required to adopt regulations to implement the tax credit and report annually to the Governor and the General Assembly specified information about the tax credit.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

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Fiscal Summary

**State Effect:** General fund and special fund revenues may decrease beginning in FY 2015 due to tax credits claimed against the State income tax. General fund expenditures increase by \$31,000 in FY 2015 due to one-time implementation costs at the Comptroller's Office.

**Local Effect:** Local highway user revenues will decrease as a result of any credits claimed against the corporate income tax. No effect on expenditures.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** Businesses that manufacture qualified environmental improvement equipment may claim a State income tax credit of \$5,000, or \$15,000 if the taxpayer begins environmental improvement equipment manufacturing operations in the State after December 31, 2014. The value of the credit may not exceed the tax liability imposed in the taxable year and any unused amount may not be carried forward to any other tax year.

Environmental improvement equipment is a manufactured product or a component of a manufactured product that has the primary end use of directly reducing or avoiding (1) air pollution, as defined in § 2-101 of the Environment Article; (2) emissions of greenhouse gas, as defined in § 2-1202 of the Environment Article; or (3) pollution in waters of the State, as defined in § 4-101.1 of the Environment Article. MDE, in consultation with the Maryland Energy Administration, is required to identify and maintain on its website, products that qualify under the tax credit program. MDE and the Comptroller are required to adopt regulations to implement the tax credit and report annually to the Governor and the General Assembly specified information about the tax credit.

**Current Law:** No similar State income tax credit exists.

**Background:** The *Maryland Energy Workforce Report*, published by the Governor's Workforce Investment Board in 2009, examined the scope and impact of the "green economy" within Maryland. Green businesses were composed of green buildings; clean technology; and energy production, distribution, and transmission. Clean technology includes energy efficiency, waste and recycling, environmental quality, and renewable energy. The report estimated that 22,000 businesses were within the green economy in 2009. Employment was greatest in the green building sector (43%), followed by energy efficiency (39%), energy production (9%), environmental quality (5%), and waste and recycling (4%).

**State Revenues:** Qualified taxpayers may claim an income tax credit of up to \$5,000 beginning in tax year 2014, and up to \$15,000 if the taxpayer begins operations in the State after December 31, 2014. As a result, general fund, Transportation Trust Fund, and Higher Education Investment Fund revenues may decrease beginning in fiscal 2015. The revenue loss in each year depends on the types of products MDE lists as eligible for the credit and the amount of qualifying taxpayers in each year.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure increase of \$31,000 in fiscal 2015 to add the business tax credit. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

**Local Revenues:** Local highway user revenues may decrease beginning in fiscal 2015 as a result of any credits claimed against the corporate income tax.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Governor's Workforce Investment Board, Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2014  
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