

Department of Legislative Services  
 Maryland General Assembly  
 2016 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 371 (Delegate Luedtke, *et al.*)  
 Ways and Means

Independent Living Tax Credit Act

This bill creates a tax credit against the State income tax for an individual or a corporation that incurs qualified expenses to renovate an existing home or construct a new home with accessibility and universal visibility features to assist individuals with disabilities. The nonrefundable credit is equal to 50% of the qualified expenses, not to exceed \$5,000 per taxpayer, and \$2 million in aggregate credits may be approved by the Department of Housing and Community Development (DHCD) each year.

The bill takes effect July 1, 2016, and applies to tax year 2017 and beyond.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$1.8 million beginning in FY 2019 due to tax credits claimed against the income tax. Transportation Trust Fund (TTF) revenues decrease by \$145,900 and Higher Education Investment Fund (HEIF) revenues decrease by \$60,000 in FY 2019. General fund expenditures increase by \$77,700 in FY 2017 due to implementation and administrative costs at DHCD and the Comptroller’s Office.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	\$0	\$0	(\$1,794,100)	(\$1,794,100)	(\$1,794,100)
SF Revenue	\$0	\$0	(\$205,900)	(\$205,900)	(\$205,900)
GF Expenditure	\$77,700	\$83,200	\$86,400	\$89,700	\$93,100
Net Effect	(\$77,700)	(\$83,200)	(\$2,086,400)	(\$2,089,700)	(\$2,093,100)

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

**Local Effect:** Local highway user revenues decrease by \$14,000 annually beginning in FY 2019. Expenditures are not affected.

**Small Business Effect:** Minimal. Qualifying small businesses that renovate an existing home or construct a new home with accessibility and universal visibility features would be positively impacted through up to \$5,000 in lower income taxes.

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## Analysis

**Bill Summary:** An individual or corporation must submit an application to DHCD by June 1 of the following year after expenses were incurred. If the amount of credits submitted to DHCD exceeds \$2 million for a calendar year, DHCD must prorate the credits. By August 1 of the following year after expenses were incurred, DHCD must certify the approved tax credits. An individual or corporation must file an amended income tax return for the taxable year in which the qualifying expenses were incurred and attach a copy of the approved tax credit certificate to claim the credit. The credit may not be carried over to any other taxable year. DHCD must adopt regulations to implement the credit.

**Current Law:** No State income tax credit of this type exists for making a home accessible for individuals with disabilities. However, local governments may grant a property tax credit for residential real property equipped with an accessibility feature. Howard, Montgomery, and Prince George's counties currently offer county property tax credits for accessibility features. For these county credits, costs must exceed \$500 and generally the tax credit is for the lesser of 50% of the eligible costs or \$2,500. The total amount of credits granted in each of these counties cannot exceed \$100,000.

**Background:** Virginia has a similar credit, the Livable Home Tax Credit. In 2014, Virginia granted \$1 million of tax credits to 275 qualifying applicants.

**State Revenues:** DHCD may approve a maximum of \$2.0 million in credits annually, and the credit may not exceed \$5,000 for each eligible taxpayer. Since the bill is applicable beginning in tax year 2017, DHCD must approve applications by August 1, 2018, so tax revenues do not decrease until fiscal 2019. As a result, general fund revenues decrease by \$1.8 million in fiscal 2019. TTF revenues decrease by \$145,942 in fiscal 2019, and HEIF revenues decrease by \$60,000. **Exhibit 1** shows the estimated State and local revenue impacts resulting from the tax credit.

**Exhibit 1**  
**State and Local Revenue Impacts**  
**Fiscal 2017-2021**

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
General Fund	\$0	\$0	(\$1,794,058)	(\$1,794,058)	(\$1,794,058)
HEIF	0	0	(60,000)	(60,000)	(60,000)
TTF	0	0	(145,942)	(145,942)	(145,942)
<i>State</i>	<i>0</i>	<i>0</i>	<i>(131,931)</i>	<i>(131,931)</i>	<i>(131,931)</i>
<i>Local</i>	<i>0</i>	<i>0</i>	<i>(14,010)</i>	<i>(14,010)</i>	<i>(14,010)</i>
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>

It is assumed that DHCD awards the maximum amount of credits each year and that individuals and businesses have enough tax liability to claim the full credit. This estimate also assumes that 50% of all credits are claimed against the personal income tax, with the remaining amount claimed against the corporate income tax.

**State Expenditures:** The Comptroller’s Office reports that it will incur a one-time expenditure increase of \$32,000 in fiscal 2017 to add the credit to the personal and corporate income tax credit form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

DHCD indicates it would need 10 additional employees to administer the program. However, Virginia only has 3 employees administering the credit, with each employee spending 20% or less of their time administering the credit. Based on Virginia’s experience, the Department of Legislative Services assumes only 1 tax credit administrator is needed to administer the credit.

General fund expenditures at DHCD increase by \$45,726 in fiscal 2017, which reflects a six month implementation delay from the bill’s July 1, 2016 effective date. The estimate includes salaries, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$39,562
One-time Start-up Costs	4,363
Operating Expenses	<u>1,801</u>
<b>DHCD Expenditures</b>	<b>\$45,726</b>
<b>Comptroller Expenditures</b>	<b><u>32,000</u></b>
<b>Total FY 2017 State Expenditures</b>	<b>\$77,726</b>

Future year expenditures reflect annual increases and employee turnover as well as annual increases in ongoing operating expenses.

**Local Revenues:** Local highway user revenues decrease by approximately \$14,010 annually beginning in fiscal 2019, as a result of credits claimed against the corporate income tax, as shown in Exhibit 1.

**Additional Comment:** The bill requires a taxpayer to file an amended income tax return to claim a credit. However, generally, if a taxpayer files for an extension, the taxpayer could potentially claim the tax credit without filing an amended tax return.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 819 (Senator Peters, *et al.*) – Budget and Taxation.

**Information Source(s):** Comptroller's Office, Department of Housing and Community Development, Virginia Department of Housing and Community Development, Department of Legislative Services

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