SB 180

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 180 (Senator Peters, *et al.*)

Budget and Taxation Ways and Means

Independent Living Tax Credit Act

This bill creates a tax credit against the State income tax for an individual that incurs qualified expenses to renovate an existing home with accessibility and universal visitability 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 $1 million in aggregate credits may be approved by the Department of Housing and Community Development (DHCD) each year.

The bill takes effect July 1, 2017, and applies to tax year 2018 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $1 million annually beginning in FY 2020 due to tax credits claimed against the individual income tax. General fund expenditures increase by $99,300 in FY 2018 due to implementation and administrative costs at DHCD and the Comptroller's Office.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	$0	$0	($1,000,000)	($1,000,000)	($1,000,000)
GF Expenditure	$99,300	$84,700	$88,400	$92,300	$96,400
Net Effect	($99,300)	($84,700)	($1,088,400)	($1,092,300)	($1,096,400)

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

Local Effect: None.

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

Analysis

Bill Summary: An individual 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 $1 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 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.

Federal Tax Benefits

Certain improvements or equipment made to accommodate a home to a taxpayer's disabled condition, or that of a spouse or a dependent who lives with the taxpayer, may be included as medical expenses that are potentially deductible from income along with other unreimbursed medical expenses. The cost of the improvement is reduced by the increase in the taxpayer's property value, but if the improvement does not increase the property value, the entire cost may be included as a medical expense. As such, if an individual itemizes deductions, the accessibility improvements or equipment may be deductible to the extent that the individual's uncompensated medical expenses generally exceed 10% (7.5% if the taxpayer or spouse was born before January 2, 1952) of the individual's adjusted gross income.

Background: Virginia has a similar credit, the Livable Home Tax Credit. In 2015, Virginia granted $946,521 in tax credits to 266 qualifying applicants.

State Revenues: DHCD may approve a maximum of $1 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 2018, DHCD must first approve applications by August 1, 2019, so revenues do not decrease until fiscal 2020. As a result, general fund revenues decrease by $1 million annually beginning in fiscal 2020.

It is assumed that DHCD awards the maximum amount of credits each year and that individuals have enough tax liability to claim the full credit.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $53,000 in fiscal 2018 to add the credit to the personal 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 that it would need three additional employees to administer the program assuming it receives 800 to 1,000 applications. However, Virginia has less than 300 applicants receiving the credit annually, so based on Virginia's experience, the Department of Legislative Services assumes only one tax credit administrator is needed to administer the credit.

General fund expenditures at DHCD increase by $46,269 in fiscal 2018, which reflects a six-month implementation delay from the bill's July 1, 2017 effective date. The estimate includes salaries, fringe benefits, grants, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$40,316
One-time Start-up Costs	4,640
Operating Expenses	1,313
DHCD Expenditures	**$46,269**
Comptroller Expenditures	**53,000**
Total FY 2018 State Expenditures	**$99,269**

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

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.

Additional Information

Prior Introductions: A similar bill, SB 819 of 2016, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 371, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 644 (Delegate Luedtke, *et al.*) - Ways and Means.

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

Fiscal Note History: First Reader - February 1, 2017
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