

Department of Legislative Services  
 Maryland General Assembly  
 2017 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1535 (Delegate Hixson)  
 Ways and Means

Income Tax Credit - HVAC Air Stratification Technology

This bill creates a nonrefundable tax credit against the State income tax for the costs of installing heating, ventilation, and air-conditioning (HVAC) air stratification technology. The value of the credit is equal to 25% of the costs, not to exceed \$500 for a residential property or \$1,000 for a commercial property. The credit may be claimed for qualified technology installed after December 31, 2016. The credit may not be carried over to any other taxable year.

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

Fiscal Summary

**State Effect:** General fund revenues decrease significantly beginning in FY 2018 due to credits claimed against the personal and corporate income tax. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues decrease significantly beginning in FY 2018 due to credits claimed against the corporate income tax. General fund expenditures increase by \$32,000 in FY 2018 due to one-time implementation costs at the Comptroller’s Office.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF/SF Rev.	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$32,000	\$0	\$0	\$0	\$0
Net Effect	(\$32,000)	(-)	(-)	(-)	(-)

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

**Local Effect:** Local highway user revenues distributed from the corporate income tax decrease beginning in FY 2018. Local expenditures are not affected.

**Small Business Effect:** Minimal.

---

## Analysis

**Bill Summary:** HVAC air stratification technology is heating, ventilation, and air-conditioning air stratification and destratification technology, including a reversible air management system, the goals of which are to improve occupant thermal comfort, improve indoor air quality, and save energy used for space heating and cooling in forced-air systems. A taxpayer claiming the credit must attach documentation of the qualified installation costs.

**Current Law:** No similar State tax credit exists. Businesses can generally deduct the cost of HVAC systems, which typically lowers federal and State income tax liabilities.

**Background:** For property placed in service before January 1, 2017, a federal tax credit is available for nonbusiness energy property that meets the requirements for qualified energy efficiency improvements or qualified residential energy property expenditures. The credit equals 10% of qualified expenses with annual caps of \$50, \$150, or \$300, depending on the property, and a lifetime limitation of \$500.

Air stratification occurs when there is minimal air movement within an enclosed building. As a result, temperature layering occurs in which there is a difference in temperature between a building's floor and ceiling.

**State Revenues:** Tax credits may be claimed beginning in tax year 2017. As a result, general fund, TTF, and HEIF revenues may decrease significantly beginning in fiscal 2018. The amount of the revenue loss depends on the types and amount of property that qualify for the tax credit and installation costs. According to the U.S. Census Bureau, about 85% of properties in Maryland use HVAC systems, and nationally, 7.5% of owner-occupied homes have HVACs added or replaced. The median cost of a residential HVAC addition or replacement is \$3,000, so the Department of Legislative Services assumes that taxpayers claim the maximum credit. The Comptroller's Office estimates that revenue losses could exceed \$40 million annually, assuming that the HVAC installations use HVAC air stratification technology. To the extent that the HVAC installations do not use HVAC air stratification technology, the revenue losses would be less than estimated.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time expenditure of \$32,000 in fiscal 2018 to add the new tax credit. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

## **Additional Information**

**Prior Introductions:** A similar bill, HB 1611 of 2016, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; U.S. Census Bureau; Department of Legislative Services

**Fiscal Note History:** First Reader - March 10, 2017  
mm/jrb

---

Analysis by: Heather N. Ruby

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510