

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 60 (Delegate Wilkins)
 Ways and Means

Income Tax - Green Buildings Tax Credit - Multifamily Housing

This bill creates a credit against the State income tax for up to 25% of the allowable costs incurred to construct a green building or convert a building into a green building. The Maryland Energy Administration (MEA) is required to administer the credit and may award a maximum of \$1 million in credits in each tax year. **The bill takes effect July 1, 2021, and applies to tax years 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by up to \$1.0 million annually beginning in FY 2022 due to credits claimed against the income tax. Administrative costs at the Comptroller’s Office and MEA may increase by \$143,700 in FY 2022 and by \$82,900 in FY 2026.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
GF Expenditure	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	(\$1.1)	(\$1.1)	(\$1.1)	(\$1.1)	(\$1.1)

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

Local Effect: Local highway user revenues decrease to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The owner of a green building that has at least 10 dwelling units, meets specified requirements, and is approved by MEA may receive a tax credit for up to 25% of qualified costs incurred after July 1, 2021. The amount of the credit may not exceed the tax liability imposed in the year, and any unused amount of the credit can be carried forward to five tax years. An applicant is also required to (1) obtain certification that the building meets certain standards and (2) submit an application containing specified information, including a detailed estimate of the allowable costs.

MEA must give priority to applications for eligible buildings (1) in which a majority of current or future tenants qualify as low or moderate income or (2) located in a federal opportunity zone or qualified census tract under the federal low-income housing tax credit (LIHTC). MEA and the Comptroller (1) must annually report specified information about the credit and (2) may adopt regulations implementing the bill.

The tax credit program is not subject to termination.

Current Law: Several existing State and federal programs provide tax credits to promote low-income housing and/or efficient buildings as discussed below.

Under the Green Building income tax credit program, MEA was authorized to award a maximum of \$25.0 million in tax credits in tax years 2003 through 2011.

Income Tax Deductions for Energy-efficient Commercial Buildings

For federal income tax purposes, a person may deduct certain costs related to newly constructed or energy upgraded commercial buildings. Apartment buildings must be at least four stories in order to qualify for the tax credit. The amount deducted under the federal income tax generally flows through for Maryland income tax purposes, thereby reducing State and local income taxes.

Historic Revitalization Tax Credit Program

The Historic Revitalization Tax Credit Program provides tax credits for commercial, small commercial, and owner-occupied residential property rehabilitations. The value of the refundable credit is based on the type of rehabilitation undertaken and is generally equal to 20% of the qualified rehabilitation expenditures. An additional 5% commercial tax credit may be claimed if certain energy efficiency standards are met or if the rehabilitation qualifies as affordable housing under the federal LIHTC.

Federal Low-income Housing Tax Credit

LIHTC provides an incentive for the development and rehabilitation of affordable rental housing. These nonrefundable federal housing tax credits are awarded to developers of qualified rental projects via a competitive application process administered by state housing finance authorities. LIHTCs are first allocated to each state according to its population. State housing agencies allocate credits to developers of rental housing according to federally required, but state created, Qualified Allocation Plans (QAP). Federal law requires that the QAP give priority to projects that serve the lowest income households and that remain affordable for the longest period of time.

Workforce Housing Project Tax Credit

Chapter 211 of 2019 established a credit against the State income tax for a qualified workforce housing project located within a federal opportunity zone. The housing must meet specified affordability criteria.

State Revenues: Tax credits may be claimed beginning in tax year 2021. As a result, general fund revenues will decrease by \$1.0 million annually beginning in fiscal 2022. This estimate assumes that MEA awards the maximum authorized amount of credits in each tax year and tax credits are claimed against the personal income tax. To the extent tax credits are claimed against the corporate income tax, a portion of tax credits claimed will decrease Transportation Trust Fund and Higher Education Investment Fund revenues.

State Expenditures: Administrative costs at the Comptroller’s Office and MEA may increase by \$143,700 in fiscal 2022 and by \$82,900 in fiscal 2026.

Maryland Energy Administration

MEA requires one program administrator to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$83,700 in fiscal 2022. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2021. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salary and Fringe Benefits	\$77,911
Other Operating Expenses	5,745
Total FY 2022 Expenditures	\$83,656

Future year expenditures reflect a salary with annual increases and employee turnover as well as ongoing operating expenses.

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$60,000 in fiscal 2022 to add the tax credit to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: HB 790 of 2020, a similar bill, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Internal Revenue Services; Maryland Energy Administration; Department of Legislative Services

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