HB 995

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 995 (Delegate Rosenberg, *et al.*)
Ways and Means

Lead-Safe Housing - Income Tax Credit

This bill establishes a tax credit program for qualifying property owners who complete an approved lead hazard reduction project. Qualifying property must have been constructed before 1978. Owners of registered rental property, child care centers, and owner-occupied housing that meet specified requirements are eligible for the program. Each fiscal year, a taxpayer may submit to the Department of Housing and Community Development (DHCD) a proposal for a lead hazard reduction project; this proposal must be submitted in writing before the commencement of the project. DHCD must approve or disapprove the project within 60 days after receiving a completed application. DHCD may approve up to $10 million in tax credits per fiscal year.

In order to qualify, all lead hazard reduction activities must be performed in accordance with Maryland Department of the Environment (MDE) standards and procedures. Once the project has been completed and meets all the specified criteria, MDE must issue a certificate indicating that the property owner is eligible for the credit. Tax credits may be carried over for five years, and are not allowable for costs for which the taxpayer has received a lead hazard reduction loan or grant.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: Total annual revenue loss of $10 million beginning in FY 2001. The distribution of the loss between the general fund and the Transportation Trust Fund (TTF) depends upon the number of claims against the corporate income tax and the number of claims against the personal income tax. A portion of the loss to the TTF will be passed through to local jurisdictions. Expenditures would increase by $121,700. Future years reflect ongoing operating expenses and inflation. Potential increase in revenues and expenditures due to the bill's penalty provision.

Local Effect: To the extent that credits are taken by corporations, local revenues would decline as a portion of the corporate income tax is distributed to the TTF to which a distribution to local governments is made. Potential increase in revenues and expenditures due to the bill's penalty provision.

Small Business Effect: Potential meaningful. Small businesses could benefit under this legislation if they receive tax credits for lead cleanup activities, particularly if credits are received for work that would have occurred anyway. To the extent that additional projects are planned due to the tax credit, property owners would presumably benefit from increased property values due to the cleanup undertaken.

Analysis

Bill Summary: Both registered rental property and owner-occupied property must have at least two bedrooms to qualify for the tax credit program. The credits available are for 90% of direct costs of an approved lead hazard reduction project for rental property, 70% for a child care center, and 90% for an owner-occupied property. The maximum credit cannot exceed $10,000 per unit or $50,000 total for any taxpayer.

In order to qualify for the credit, properties must:

- satisfy the "full risk reduction" standard;
- have a walk-off floor mat for all exterior entryways;
- not have any exterior surfaces with chipping, peeling, or flaking paint;
- have lead-safe windows in all specified living areas; and
- pass the lead-contaminated dust test.

Any person who knowingly makes a false statement in applying for the tax credit is guilty of a misdemeanor and subject to a penalty provision (up to $50,000 fine and/or up to two years imprisonment).

Current Law: A tax credit is not available to individuals or corporations for expenditures made for lead abatement.

State Revenues: According to the U.S. Census, there were 112,357,000 housing units in the United States in 1997. 28,527,000 of these units were built before 1975. 11,708,000 units were built between 1975 and 1979. If it is assumed that the same number were built annually, then another 7,025,000 were built between 1975 and 1977, for a total of 35,552,000 built before 1978. Approximately 86% of all housing units had two or more bedrooms, or approximately 30,575,000 built before 1978. Assuming that Maryland has the same ratio of pre-1978 housing units that the State population has to the U.S. population, then Maryland would have 1.9% or approximately 675,488 pre-1978 housing units. These numbers would be reduced by units no longer in existence today, and by the number of units with corrections which are now lead safe. The number of child care centers built before 1978 is not known.

According to DHCD, lead abatement costs on average about $6,000 per residential unit. DHCD estimates that there are approximately 555,000 dwelling units (occupied and unoccupied) in Maryland in need of lead abatement.

Massachusetts has a similar tax credit program with a maximum credit allowed of $2,500 per homeowner. In 1995, a total of $2.8 million was paid for lead abatement for 1,900 units. Using a Maryland to Massachusetts population ratio of 84% (July 1999 Census Bureau estimates), Maryland would have approximately 1,600 units for which a credit could be claimed each year. Assuming a credit of $5,400 (90% of $6,000) per unit, a total of $10.3 million could be claimed in credits each year. Since this exceeds the $10 million cap established by the bill, it is likely that $10 million in credits would be claimed each year. The annual cost of the bill would decline over time since the number of properties with lead hazards will decline. However, any reduction in credits claimed are not anticipated in the next five years.

Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

Assuming one-half of the credits are claimed against the personal income tax and one-half are claimed against the corporate income tax, general fund revenue would decline by $8.75 million and TTF revenue would decrease by $875,000 in fiscal 2001.
The criminal penalty provision of this bill are not expected to significantly affect State revenues.

State Expenditures: DHCD reports that it would need two professional staff and one support staff to administer the tax credit program established by the bill. The Department of Legislative Services advises that the support staff could be a contractual employee. General fund expenditures could increase by an estimated $121,700 in fiscal 2001, which accounts for the bill's July 1, 2000, effective date. This estimate reflects the cost of hiring one program administrator, one inspector, and one contractual office secretary to administer the tax credit program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover for the permanent position; (2) 2.4% annual salary increases for the contractual position; and (3) 1% annual increases in ongoing operating expenses.

The criminal penalty provision of this bill is not expected to significantly affect State expenditures.

Local Revenues: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions. Based on the estimate above, local government revenue would decrease by approximately $375,000 beginning in fiscal 2001.

The criminal penalty provision of this bill is not expected to significantly affect local revenues.

Local Expenditures: The criminal penalty provision of this bill is not expected to significantly affect local expenditures.

Additional Information

Prior Introductions: A similar bill was introduced as HB 990 during the 1997 session. It received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Health and Mental Hygiene, Maryland Department of the Environment, Department of Housing and Community Development, Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2000 cm/jr

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