

Department of Legislative Services  
Maryland General Assembly  
2002 Session

FISCAL NOTE  
Revised

House Bill 615  
Ways and Means

(Delegate Finifter, *et al.*)

Budget and Taxation

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Income Tax Credit - Ground Source Heat Pumps

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This bill provides that an individual or corporation may claim an income tax credit for the costs of a ground source heat pump. The amount of the credit is equal to 10% of the total installed costs, not to exceed \$500 for each unit. Any unused amount of the credit may not be carried forward to any other taxable year.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001.

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Fiscal Summary

**State Effect:** General fund and Transportation Trust Fund (TTF) revenues could decrease depending on the number of individuals and corporations installing ground source heat pumps and the costs associated with each installation. Under one set of assumptions, for every 100 heat pumps purchased by home owners, general fund revenues could decrease by approximately \$50,000, and for every 100 purchased for commercial purposes, general fund revenues could decrease by \$37,500 and special fund revenues could decrease by \$12,500.

**Local Effect:** Local government revenues would decrease as a result of credits being claimed against the corporate income tax.

**Small Business Effect:** Potential meaningful.

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## **Analysis**

**Current Law:** No income tax credit exists for costs related to the installation of a ground source heat pump.

**Background:** Ground source heat pumps, or geothermal heat pumps, are electrically powered heating and cooling systems that use the earth's relatively constant temperature to provide heating, cooling, and hot water to residential and commercial buildings.

**State Fiscal Effect:** The actual cost of the bill cannot be reliably estimated and depends on the number of individuals and/or corporations installing ground source heat pumps and the costs associated with each installation.

According to information provided by the International Ground Source Heat Pump Association, the cost of a 2.5 ton unit -- approximately what would be needed for a 2,000 square foot home -- is approximately \$6,250 compared to \$4,000 for the least expensive alternative (gas furnace or traditional heat pump). Additional costs may be incurred for electrical work, duct work, and water hook-up. The amount of the credit for an individual installing a ground source heat pump for \$6,250 or more would be \$500, since 10% of \$6,250 exceeds \$500. Commercial buildings would likely require a larger ground source heat pump.

Of those units that are installed by corporations, 75% of the credit would be a loss of general fund revenue and 25% would be a loss of Transportation Trust Fund (TTF) revenue. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

For illustrative purposes only, for every 100 residential ground source heat pumps that are installed annually at a cost of \$6,250 per unit, general fund revenues would decrease by \$50,000. If, in addition, 100 commercial ground source heat pumps were installed each year (assuming the maximum credit of \$500) general fund revenues would decrease by approximately \$37,500 and TTF revenues would decrease by approximately \$12,500.

The Office of the Comptroller would incur a one-time expenditure of \$42,400 to make changes to the SMART processing systems to add the credit to form 502CR of the income tax return. The Department of Legislative Services advises that since forms and instructions are updated annually, the cost of these changes could be absorbed within existing resources.

**Local Fiscal Effect:** Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. As mentioned above, 75% of

corporate tax revenues are distributed to the general fund, and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

**Small Business Effect:** There are 14 accredited installers of ground source heat pumps in Maryland. Assuming that these are all small businesses and that the bill increases the demand for ground source heat pumps, these businesses could realize increased revenues.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller of the Treasury (Bureau of Revenue Estimates), International Ground Source Heat Pump Association, Department of Legislative Services

**Fiscal Note History:** First Reader - February 25, 2002  
mld/cer Revised - House Third Reader - March 26, 2002  
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