

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1039 (Delegate Hogan, *et al.*)  
 Ways and Means

Lead-Safe Housing - Income Tax Credit

This bill creates a tax credit against the State income tax for the costs incurred for qualifying lead hazard reduction projects. The total amount of credits approved in a year may not exceed \$5 million.

The bill takes effect July 1, 2004 and applies to tax years 2004 and beyond.

Fiscal Summary

**State Effect:** Revenue decrease of \$5 million annually beginning in FY 2005. The distribution of the loss between the general fund and the Transportation Trust Fund (TTF) cannot be reliably estimated. Special fund expenditures increase by approximately \$50,000 in FY 2005, which includes one-time tax form changes and computer programming expenditures. General fund expenditure increase of \$158,000 in FY 2005 and ongoing due to the hiring of a program administrator and inspector at the Department of Housing and Community Development (DHCD). Future years reflect annualization and inflation.

| (in dollars)   | FY 2005       | FY 2006       | FY 2007       | FY 2008       | FY 2009       |
|----------------|---------------|---------------|---------------|---------------|---------------|
| GF/SF Rev.     | (\$5,000,000) | (\$5,000,000) | (\$5,000,000) | (\$5,000,000) | (\$5,000,000) |
| GF Expenditure | 158,000       | 160,200       | 168,900       | 178,300       | 188,200       |
| SF Expenditure | 50,000        | 0             | 0             | 0             | 0             |
| Net Effect     | (\$5,208,000) | (\$5,160,200) | (\$5,168,900) | (\$5,178,300) | (\$5,188,200) |

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

**Local Effect:** Local government revenues would decline as a result of tax credit claims against the corporate income tax. Seventy-six percent of corporate tax revenues is distributed to the general fund, and 24% is distributed to the TTF. Of the 24% distributed

to the TTF, approximately 30% is distributed to local jurisdictions. Credits against State personal income taxes would not affect local revenues.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** 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. A taxpayer may submit to 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 \$5 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 forward five tax years, and are not allowable for costs for which the taxpayer has received a State lead hazard reduction loan or grant.

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 a 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:** No State tax credit of this type exists.

**Background:** Chapter 114 of 1994 established the Lead Poisoning Prevention Program in MDE. The program provides limited liability relief for owners of affected property (generally, rental property built before 1950) and others in exchange for the reduction of lead hazards in these older rental properties and limited compensation for children poisoned by lead. A qualified offer by a landowner to a person at risk, or a parent or legal guardian of a minor at risk, covers up to \$7,500 for all medically necessary treatments and up to \$9,500 for relocation benefits. The fiscal 2005 allowance for the program is approximately \$4.3 million.

**State Revenues:** It is estimated that the maximum amount of credits will be claimed for each year beginning in tax year 2004, resulting in a revenue loss of \$5 million annually beginning in fiscal 2005. An estimated 12,791 lead reduction projects would qualify for the project, decreasing by about 5% annually. Assuming an average cost of \$6,000 per project, the cap of \$5 million would be reached in every tax year. These estimates are based on the following facts and assumptions:

- The U.S. Department of Housing and Urban Development (HUD) estimated in 2000 that 17% of homes in the U.S. southern region (which includes Maryland) have lead hazards.
- From 1990 to 2000 HUD estimated that the number of homes with lead hazards declined by 5.1% annually. It is assumed that 5.1% of eligible Maryland properties will conduct lead abatement programs and will qualify for the credit.
- The State Department of Taxation and Assessments estimated in 2000 that there were approximately 1.6 million improved residential properties in the State.
- An estimated additional 160,000 multi-unit structures and child care centers would qualify for the credit.
- DHCD estimated in 2000 that the average lead abatement expense was \$6,000 per home.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$50,000 to add the tax credit to the personal and corporate income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems, and systems testing.

General fund expenditures could increase by an estimated \$158,000 in fiscal 2005. This estimate reflects the cost of hiring one inspector and one program administrator at DHCD. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

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### **Additional Information**

**Prior Introductions:** HB 995 of 2000, a similar bill, received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Department of the Environment, Department of Housing and Community Development, Department of Legislative Services

**Fiscal Note History:** First Reader - March 24, 2004  
mh/mdr

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