

Department of Legislative Services  
 Maryland General Assembly  
 2005 Session

FISCAL AND POLICY NOTE

House Bill 1363  
 Ways and Means

(Delegate Haddaway, *et al.*)

**Income Tax - Credit for Hydrogen Fuel Cell Research and Development**

This bill creates a tax credit against the State income tax for hydrogen fuel cell research and development that is conducted in the State. The amount of the tax credit is equal to 10% of the eligible expenses incurred. The amount of the tax credit cannot exceed the tax liability for that year. Any unused amount of the credit can be carried forward 15 tax years. The maximum amount of credits available in each year is limited to \$3 million. Taxpayers that claim the credit are required to add-back the amount of credit claimed when calculating Maryland adjusted gross income. The bill provides for an application and certification process, and requires the Department of Business and Economic Development (DBED) and the Comptroller’s Office to adopt regulations to implement the bill. The credit is available for research and development expenses incurred before January 1, 2014.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by approximately \$2.1 million annually beginning in FY 2007. Transportation Trust Fund (TTF) revenues could decrease by approximately \$669,600 annually beginning in FY 2007. Estimated revenue losses reflect maximum amount of credits being awarded, application process established by the bill, and required add-back provision. General fund expenditure increase of \$44,400 in FY 2006 due to one-time tax form changes and computer expenses.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$0	(\$2.1)	(\$2.1)	(\$2.1)	(\$2.1)
SF Revenue	0	(.7)	(.7)	(.7)	(.7)
GF Expenditure	0	0	0	0	0
Net Effect	(\$0)	(\$2.8)	(\$2.8)	(\$2.8)	(\$2.8)

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

**Local Effect:** Local highway user revenues would decrease by approximately \$200,900 annually beginning in FY 2007.

**Small Business Effect:** Minimal.

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## Analysis

**Current Law:** No State income tax credit exists specifically for businesses that incur hydrogen fuel cell research and development, but these businesses can qualify for the State research and development tax credit.

**Background:** In 2004, the federal Department of Energy (DOE) awarded the first \$350 million of a \$1.2 billion commitment to hydrogen research under the International Partnership for Hydrogen Economy. Grants were awarded to 130 domestic and international research laboratories, universities, and private companies that submitted proposals in response to a competitive solicitation process. As part of the program, \$75 million was recently awarded for hydrogen production and delivery research. Approximately \$8.6 million was awarded to projects headed by a Maryland-based organization.

**State Revenues:** Tax credits could be claimed beginning in tax year 2005. The bill provides that a business claiming the credit must file an amended return after receiving certification from DBED. As a result, general fund revenues could decrease by approximately \$2.1 million annually beginning in fiscal 2007. TTF revenues could decrease by approximately \$669,600 annually beginning in fiscal 2007. This estimate assumes that the maximum amount of credits will be awarded in each year. Almost all of the credits under the existing State research and development tax credit have been claimed against the corporate income tax. It is estimated that the proposed tax credit would have a similar percent claimed against the corporate income tax.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of approximately \$44,400 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and systems testing.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Business and Economic Development,  
Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 21, 2005  
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