

**Department of Legislative Services
Maryland General Assembly
2006 Session**

FISCAL AND POLICY NOTE

House Bill 566 (Delegate Hogan)
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, 2006 and applies to tax years 2006 and beyond.

Fiscal Summary

State Effect: State revenues would decrease by \$5 million annually beginning in FY 2007. General fund expenditure increase of \$374,900 in FY 2007 for implementation by the Department of Housing and Community Development (DHCD), the Maryland Department of the Environment (MDE), and the Comptroller’s Office. Future years are adjusted for inflation and reflect ongoing costs.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF/SF Rev.	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)
GF Expenditure	374,900	351,000	370,700	391,900	414,600
Net Effect	(\$5,374,900)	(\$5,351,000)	(\$5,370,700)	(\$5,391,900)	(\$5,414,600)

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

Local Effect: Local revenues would decrease as a result of tax credit claims against the corporate income tax. Seventy-six percent of corporate income tax revenues is distributed to the general fund, and 24% is distributed to the Transportation Trust Fund (TTF). Of the 24% distributed to the TTF, approximately 30% is distributed to local jurisdictions. The bill’s criminal penalty provision is not expected to significantly affect local finances.

Small Business Effect: Potential meaningful.

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 MDE standards and procedures. Once the project has been completed and meets all 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 Paint Poisoning Prevention Program in MDE. The program provides limited liability relief for owners of rental property built before 1950 and others in exchange for the reduction of lead hazards in these older rental properties. The program also provides for limited compensation to children who are poisoned by lead. MDE is the State's lead agency because it identifies and monitors properties contaminated with lead paint. DHCD administers the Lead Hazard Reduction Grant and Loan Program, which provides funds to assist homeowners and landlords in reducing lead hazards.

State Revenues: According to information provided by DHCD, there are an estimated 526,300 housing units in the State with lead paint. DHCD advises that the average lead hazard reduction project costs about \$15,000. Because the bill establishes a maximum credit of \$10,000 per unit and a maximum of \$5 million total in credits per year, it is not unreasonable to assume that the maximum amount of credits would be claimed each year beginning in tax year 2006. Accordingly, general fund revenues and TTF revenues could decrease by an estimated \$5 million annually beginning in fiscal 2007.

The criminal penalty provision is not expected to significantly affect State revenues.

State Expenditures: General fund expenditures would increase by approximately \$374,900 in fiscal 2007, which includes implementation costs for DHCD, MDE, and the Comptroller's Office, as described below. Future year estimates are adjusted for inflation and reflect ongoing operating costs.

Department of Housing and Community Development

General fund expenditures could increase by an estimated \$184,100 in fiscal 2007, which accounts for the bill's July 1, 2006 effective date. This estimate reflects the cost of hiring one program administrator, one inspector, and one support staff to review project proposals. It includes salaries, fringe benefits, and ongoing operating expenses.

Salaries and Fringe Benefits	\$174,388
Operating Expenses	<u>9,720</u>
Total FY 2007 DHCD Expenditures	\$184,108

Legislative Services advises that DHCD already administers a grant and loan program related to lead hazard reductions. The need for additional staff is premised on the fact

that existing staff could not absorb the additional workload that is anticipated as a result of the tax credit program.

Future year expenditures reflect: (1) 4.6% annual increases in salaries and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Maryland Department of the Environment

General fund expenditures could increase by approximately \$157,900 in fiscal 2007, which accounts for the bill's July 1, 2006 effective date. This estimate reflects the cost of hiring two lead risk assessors and one administrative specialist to review completed projects and issue certificates of eligibility to property owners. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$144,560
Equipment/Operating Expenses	<u>13,373</u>
Total FY 2007 MDE Expenditures	\$157,933

Future year expenditures reflect: (1) 4.6% annual increases in salaries and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Comptroller's Office

The Comptroller's Office reports that it would incur a one-time general fund expenditure increase of an estimated \$32,850 to add the tax credit to the income tax forms. This estimate includes costs for data processing changes to the SMART income tax return processing and imaging systems, and systems testing.

Other

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

Small Business Effect: According to DHCD, lead hazard reduction projects cost, on average, approximately \$15,000 per unit. Entities that qualify for the tax credit could claim a credit of up to \$10,000 per unit or \$50,000 total.

Additional Information

Prior Introductions: HB 1394 of 2005, an identical bill, received an unfavorable report from the House Ways and Means Committee. Similar bills were introduced as HB 1039 of 2004, HB 995 of 2000, and HB 990 of 1997, which all received unfavorable reports from the House Ways and Means Committee.

Cross File: None.

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

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