

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 997
 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, 2015.

The bill takes effect July 1, 2006 and applies to tax year 2006 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$2.1 million annually beginning in FY 2008. Transportation Trust Fund (TTF) revenues could decrease by approximately \$669,600 annually beginning in FY 2008. 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 \$32,900 in FY 2007 due to one-time tax form changes and computer expenses.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	\$0	(\$2,120,000)	(\$2,120,000)	(\$2,120,000)	(\$2,120,000)
SF Revenue	0	(669,600)	(669,600)	(669,600)	(669,600)
GF Expenditure	32,900	0	0	0	0
Net Effect	(\$32,900)	(\$2,789,600)	(\$2,789,600)	(\$2,789,600)	(\$2,789,600)

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 2008. Expenditures would not be affected.

Small Business Effect: Minimal.

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 the 2003 State of the Union address, President Bush announced a \$1.2 billion hydrogen initiative to reverse the United State's growing dependence on foreign oil and reduce greenhouse gas emissions. 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. Earlier this year, DOE announced an additional \$119 million in awards.

State Revenues: Tax credits could be claimed beginning in tax year 2006. The bill provides that a business claiming the credit must file an amended return after receiving certification from DBED. It is assumed that businesses claiming the credit do not adjust estimated payments. As a result, general fund revenues could decrease by approximately \$2.1 million annually beginning in fiscal 2008. TTF revenues could decrease by approximately \$669,600 annually beginning in fiscal 2008. 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 percentage claimed against the corporate income tax.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of approximately \$32,850 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.

Additional Information

Prior Introductions: HB 1363 of 2005, an identical bill, received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): U.S. Department of Energy, Comptroller's Office, Department of Legislative Services

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mll/hlb

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