HB 741

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 741 (Delegate Barve)
Ways and Means

Income Tax - Employer-Assisted Housing Credit

This bill creates a tax credit against the State income tax for the qualifying housing assistance provided by an employer to an employee. The amount of the credit is equal to 50% of qualifying expenses, not to exceed $2,000 for qualifying rental assistance and the lesser of $10,000 or 6% of the purchase price of a qualifying home for homeownership assistance provided per employee. Eligible employees must have a household income of 120% or less of the "area median gross income." The credit may not exceed the tax liability in the tax year, and any unused amount can be carried forward five tax years. The bill would terminate if a federal tax credit related to employer-assisted housing becomes law.

The bill takes effect July 1, 2007 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: The impact on State revenues cannot be reliably estimated at this time. *Under one set of assumptions*, revenues could decrease by $18.8 million annually beginning in FY 2008. General fund expenditures would increase by $34,000 in FY 2008 due to one-time tax form and computer programming expenses at the Comptroller's Office.

Local Effect: Local highway user revenues would decrease to the extent credits are claimed against the corporate income tax. No effect on expenditures.

Small Business Effect: None.

Analysis

Bill Summary: Employers could claim a credit of up to 50% of qualifying housing expenses paid on behalf of its employees, not to exceed $2,000 for qualifying rental assistance and the lesser of $10,000 or 6% of the purchase price of a qualifying home for homeownership assistance provided per employee. Eligible employees must have a household income of 120% or less of the "area median gross income." To be eligible for homeownership assistance, the expenses must be for the purchase of a principal residence and the employee could not have owned a principal residence located within 50 miles of the individual's place of employment within the previous two years. The bill would terminate if a federal tax credit related to employer-assisted housing becomes law.

Current Law: No similar State tax credit exists.

Background: The Illinois Affordable Housing Tax Credit Program was recently extended until 2011. The program offers credits for donations to qualified nonprofit affordable housing sponsors and employer-assisted housing. The program's provisions for employer-assisted housing are very similar to the ones proposed by the bill. In fiscal 2007, the program received $2.0 million in funding. The Illinois Housing Development Authority advises that it will expend all of the funding for the employer-assisted housing tax credit and would be able to award substantially more credits if funding for the program was increased.

In June 2005 federal legislation was introduced to support employer-assisted housing nationwide. Modeled on the Illinois tax credit, the legislation proposed a 50% tax credit for every dollar an employer spends on qualifying employer-assisted housing and would provide that housing benefits provided to employees would be treated as nontaxable compensation. The legislation did not become law and to date no federal legislation has passed that provides for employer-assisted housing tax credit.

State Revenues: The actual cost of the bill, which cannot be reliably estimated at this time, depends on the number of taxpayers claiming the deduction and the total amount of housing expenditures eligible for the deduction.

However*, for illustrative purposes only,* based on data from the U.S. Census Bureau, the Comptroller's Office, and the State Department of Assessments and Taxation (SDAT), State revenues could decrease by $18.8 million annually beginning in fiscal 2008. This estimate is based on the following facts and assumptions:

- According to SDAT there were 94,625 owner-occupied home sales in fiscal 2006. Due to the restrictions of the bill, an estimated 70% of these sales would not qualify.
- Future sales are increased by the Maryland residential sales forecasted by Economy.com.
- Given the value of the credit, in 2.5% of eligible home sales an employer provides homeownership assistance.
- An estimated 1.7 million workers would meet the income restrictions of the bill.
- According to the U.S. Census Bureau, 27.4% of State residents are renters.
- One percent of workers receive rental assistance as provided under the bill.

To the extent that the tax credit encourages businesses to shift employee compensation from wages to homeownership assistance revenues losses would be greater than estimated.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $34,000 in fiscal 2008 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Comptroller's Office, U.S. Census Bureau, Department of Legislative Services

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