HB 976

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 976 (Delegate Ross)
Ways and Means

Income Tax Credit - Qualified Homes

This bill creates a credit against the State income tax for individuals who purchase a qualifying home located in a designated Priority Funding Area (PFA). The home must be the principal residence of the individual. The amount of the credit is equal to $5,000 not to exceed the tax liability in the tax year. Any amount of unused credit may be carried forward five tax years.

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

Fiscal Summary

State Effect: General fund revenues could decrease by $119.4 million in FY 2008, which reflects credits claimed in the current tax year and estimated tax liabilities. Future years reflect current year losses and credits carried forward from the previous year. 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.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	($119.4)	($205.1)	($203.6)	($203.4)	($202.6)
GF Expenditure	0	0	0	0	0
Net Effect	($119.5)	($205.1)	($203.6)	($203.4)	($202.6)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax credit exists.

Background: In 1997, the General Assembly enacted Governor Glendening's Smart Growth and Neighborhood Revitalization legislative package in an effort to reduce the impact of urban sprawl on the environment and encourage growth in existing communities. The initiative, which was designed to protect Maryland's green spaces and to preserve the State's rural areas, aims to manage growth by restricting State funding to designated PFAs. The Smart Growth legislation established certain areas as PFAs and allowed counties to designate additional areas if they meet minimum criteria. **Exhibit 1** lists the areas initially established as PFAs and areas eligible for county designation.

Exhibit 1
Smart Growth – Priority Funding Areas

Areas Initially Established by Law	Areas Eligible for County Designation
Municipalities	Areas with industrial zoning
Baltimore City	Areas with employment as the principal use which are served by, or planned for, a sewer system
Areas inside the Baltimore and Washington beltways	Existing communities within county-designated growth areas which are served by a water or sewer system and which have an average density of 2 or more units per acre
Neighborhoods designated for revitalization by the Department of Housing and Community Development	Rural villages
Enterprise and Empowerment Zones	Other areas within county-designated growth areas that, among other things, have a permitted density of 3.5 or more units per acre for new residential development
Certified Heritage Areas within county-designated growth areas	

Source: Maryland Department of Planning

When local jurisdictions amend their PFAs, the Maryland Department of Planning (MDP) reviews the changes for consistency with State law. In addition, MDP is responsible for creating all PFA maps for distribution. **Appendix 1** details the areas of the State that are within a designated PFA.

State Revenues: Tax credits could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by $119.4 million in fiscal 2008. This estimate is based on the following facts and assumptions:

- According to the State Department of Assessments and Taxation, 72,000 home sales in 2006 were located in a designated PFA.
- According to the 2000 Census, 61% of homes in PFAs are owner-occupied.
- Each taxpayer claiming the credit would have an estimated $2,900 in tax liability.
- The change in the amount of eligible home sales in 2006 through 2011 is assumed to equal the change in existing single-family home sales in the State as forecasted by Economy.com.

An additional $87.3 million in tax year 2007 credits would be carried forward to fiscal 2009. Fiscal 2009 and beyond reflect the impact of approximately 60% of tax credits claimed in the current year and approximately 40% of the credits claimed in the previous tax year.

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): Comptroller's Office, State Department of Assessments and Taxation, Maryland Department of Planning, Economy.com, U.S. Census Bureau, Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2007
ncs/hlb

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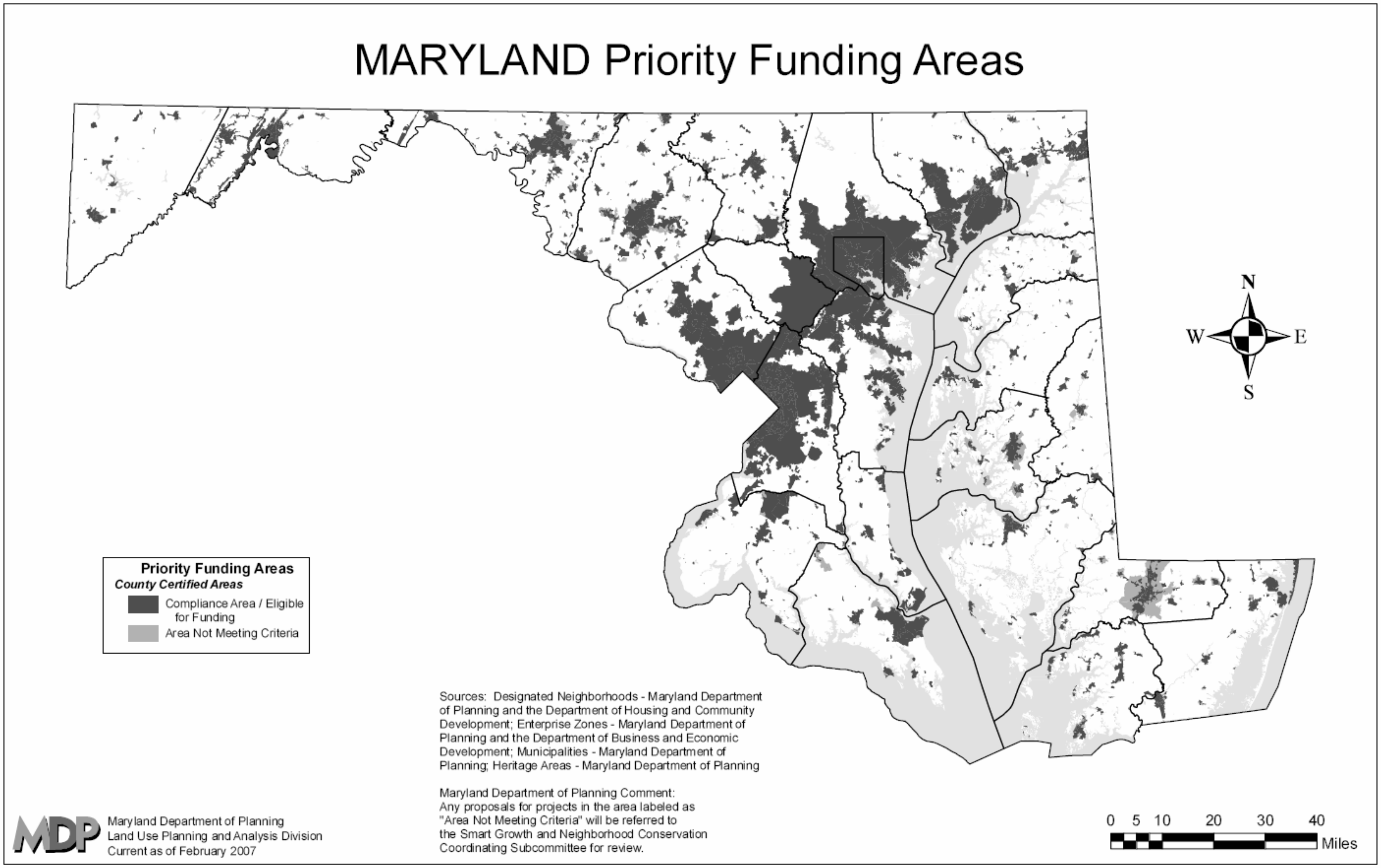
Appendix 1



MARYLAND Priority Funding Areas
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W
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S
Priority Funding Areas
County Certified Areas
Compliance Area / Eligible for Funding
Area Not Meeting Criteria
Sources: Designated Neighborhoods - Maryland Department of Planning and the Department of Housing and Community Development; Enterprise Zones - Maryland Department of Planning and the Department of Business and Economic Development; Municipalities - Maryland Department of Planning; Heritage Areas - Maryland Department of Planning
Maryland Department of Planning Comment:
Any proposals for projects in the area labeled as "Area Not Meeting Criteria" will be referred to the Smart Growth and Neighborhood Conservation Coordinating Subcommittee for review.
MDP
Maryland Department of Planning
Land Use Planning and Analysis Division
Current as of February 2007
0 5 10 20 30 40
Miles