

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 986
 Ways and Means

(Delegate Rosenberg, *et al.*)

Lead Safe Income Tax Credit

This bill creates a State income tax credit for qualifying lead hazard reduction projects. The Department of Community and Housing Development (DHCD) is authorized to award a maximum of \$3 million in credits annually in fiscal 2008 through 2011. The bill provides for an application and certification process, and requires DHCD to jointly adopt regulations with the Comptroller’s Office and Maryland Department of Environment in order to implement the program.

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

Fiscal Summary

State Effect: General fund revenues would decrease by \$2.8 million annually in FY 2008 through FY 2011. Transportation Trust Fund (TTF) revenues would decrease by \$180,000 annually over the same time period. General fund expenditure increase of \$232,000 in FY 2008 due to implementation costs at DHCD and the Comptroller’s Office. Future years are adjusted for inflation and reflect ongoing costs.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$2.82)	(\$2.82)	(\$2.82)	(\$2.82)	\$0
SF Revenue	(.18)	(.18)	(.18)	(.18)	0
GF Expenditure	.23	.19	.20	.21	0
Net Effect	(\$3.23)	(\$3.19)	(\$3.20)	(\$3.21)	\$0

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

Local Effect: If one-quarter of the credits were claimed against the corporate income tax, local highway user revenues distributed through the TTF would decrease by \$54,000 annually in FY 2008 through 2011. 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, day care centers for the elderly, and owner-occupied housing that meet specified requirements are eligible. A taxpayer may submit to DHCD a proposal for a lead hazard reduction project, which has to 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 \$3 million in tax credits per fiscal year.

All lead hazard reduction activities have to be done in accordance with MDE standards and procedures. Once the project has been completed and meets all specified criteria, an independent inspector hired by the property owner would issue a certificate indicating that the owner has met the eligibility requirements of the credit.

Both registered rental property and owner-occupied property must have at least two bedrooms to qualify. The credits available are for 90% of direct costs of an approved lead hazard reduction project for rental property, 70% for care centers, and 90% for an owner-occupied property. The maximum credit cannot exceed in any tax year \$5,000 per unit or \$50,000 total for any taxpayer. 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.

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. Lead removal expenses incurred by businesses can be deducted as a business expense, which typically results in lower federal and State tax liability. Lead abatement programs can qualify for financial assistance under existing programs as discussed below.

Background: Chapter 114 of 1994 established the Lead Paint Poisoning Prevention Program in the Maryland Department of the Environment (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 (LHRP), which provides funds to assist homeowners and landlords in reducing lead hazards. The fiscal 2008 budget includes \$1,840,000 in funding for LHRP. In addition, Baltimore City operates a lead abatement program that is primarily funded by the federal Department of Housing and Urban Development.

State Revenues: According to information provided by DHCD, there are over 500,000 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 \$5,000 per unit and a maximum of \$3 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 2007. Accordingly, general fund revenues and TTF revenues could decrease by an estimated \$3 million annually in fiscal 2008 through 2011.

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

State Expenditures: General fund expenditures would increase by \$232,000 in fiscal 2008, which includes implementation costs for DHCD and the Comptroller's Office, as described below. Future year estimates are adjusted for inflation and reflect ongoing operating costs. Since tax credits cannot be awarded after fiscal 2001 agency operating costs would discontinue after fiscal 2011.

Department of Housing and Community Development

General fund expenditures could increase by an estimated \$198,000 in fiscal 2008, which accounts for the bill's July 1, 2007 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. Future year expenditures reflect: (1) 4.5% annual increases in salaries and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Salaries and Fringe Benefits	\$179,009
Operating Expenses	<u>19,025</u>
FY 2008 DHCD Administrative Expenditures	\$198,034

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.

Comptroller's Office

The Comptroller's Office reports that it would incur a one-time general fund expenditure increase of \$34,000 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.

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 \$5,000 per unit or \$50,000 total in each tax year.

Additional Information

Prior Introductions: Similar bills were introduced at the 1997, 2000, 2004, 2005, and 2006 sessions. HB 1449 of 2006 received a favorable with amendments report from the House Ways and Means Committee and passed the House but was not reported from the Senate Budget and Taxation Committee. HB 1394 of 2005, HB 1039 of 2004, HB 995 of 2000, and HB 990 of 1997 all received unfavorable reports from Ways and Means.

Cross File: None.

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

Fiscal Note History: First Reader - February 23, 2007
ncs/hlb

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