

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 565

(Senator Garagiola, *et al.*)

Budget and Taxation

Ways and Means

Income Tax Credit - Bio-Heating Oil

This bill creates a tax credit against the State income tax for individuals or corporations who purchase bio-heating oil for use in space or water heating. To qualify, the bio-heating oil must contain at least 5% biodiesel. The amount of the credit is equal to 3 cents per gallon purchased, not to exceed \$500 or the tax liability in that year. The bill specifies an application and certification process and requires the Maryland Energy Administration to adopt regulations and conduct a campaign to promote the use of bio-heating oil.

The bill takes effect July 1, 2008 and applies to tax year 2008 through 2012. The bill terminates June 30, 2013.

Fiscal Summary

State Effect: General fund revenues would decrease by \$121,100 in FY 2009 due to credits being claimed by eligible individuals. Future years reflect annualization and estimated growth in bio-heating oil use. General fund expenditures would increase by \$34,000 in FY 2009 which reflects one-time tax form changes and computer programming expenditures.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$121,100)	(\$256,700)	(\$272,100)	(\$288,500)	(\$305,800)
GF Expenditure	34,000	0	0	0	0
Net Effect	(\$155,100)	(\$256,700)	(\$272,100)	(\$288,500)	(\$305,800)

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

Local Effect: To the extent that any credits are claimed against the corporate income tax, local highway user revenues would decrease. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: No similar State income tax credit exists.

Background: Bio-heating oil is a blend of heating oil and biodiesel. Biodiesel is a fuel derived from plant oils or animal fats and meets certain specifications. Bio-heating oil is currently more expensive than conventional heating oil; bio-heating oil containing 2% biodiesel is about 3 to 5 cents more expensive while bio-heating oil that is 20% biodiesel is about 20 to 30 cents more expensive.

In addition to a federal credit for biodiesel production, several states provide incentives for biodiesel and bio-heating. In 2006, New York created a credit for corporate and personal income taxpayers that purchased bio-heat to be used for space heating or hot water production for residential purposes. The credit was equal to 1 cent per gallon for each percent of biodiesel included in the bio-heat, not to exceed twenty cents per gallon, purchased by the taxpayer. The credit was in effect for bio-heat purchases made during the period July 1, 2006 through June 30, 2007. Governor Elliot Spitzer has recently proposed to extend the credit through 2011, with an annual estimated cost of \$1 million.

MEA advises that in 2005 the Maryland residential, commercial, and industrial sectors consumed 333.6 million gallons of distillate fuel and that about 16% of households use fuel oil for heating.

State Revenues: Tax credits could be claimed beginning in tax year 2008. The bill is effective July 1, 2008 and requires that individuals receive approval from MEA prior to claiming the credit. As a result, general fund revenues could decrease by \$121,100 in fiscal 2009 and by \$256,700 in fiscal 2010.

This estimate is based on the amount of distillate fuel consumed in Maryland and the cost of incentives in other states, adjusted for the relative difference in credit values and eligibility and distillate fuel consumed in each state. Due to the maximum cap of \$500, it is assumed that few corporations would claim the credit.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 in fiscal 2009 to add the credit to the personal income tax form. This includes processing changes to the SMART income tax return processing and imaging systems and systems testing.

MEA could administer the program within existing budget resources. Although MEA is required to promote the use of bio-heating oil, the bill stipulates that it can only do so within existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Energy Administration,
Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510