

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 389 (Delegates Hogan and Beidle)
 Ways and Means

Lead Safe Income Tax Credit

This bill creates a tax credit against the State income tax for the costs incurred for qualifying lead hazard reduction projects. The Department of Housing and Community Development (DHCD) is required to administer the credit and, in cooperation with the Maryland Department of the Environment (MDE) and the Comptroller’s Office, adopt regulations to implement the credit. DHCD may award a maximum of \$1.0 million in credits in each fiscal year through fiscal 2017.

The bill takes effect July 1, 2013, and applies to tax years 2013 and beyond.

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues will decrease by a total of \$1.0 million annually in FY 2014 through 2017. General fund expenditures increase by \$0.3 million in FY 2014 due to implementation costs at DHCD and the Comptroller’s Office. Future year estimates reflect ongoing DHCD administrative costs and termination of the credit.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF/SF Rev.	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	\$0
GF Expenditure	\$0.3	\$0.2	\$0.2	\$0.2	\$0
Net Effect	(\$1.3)	(\$1.2)	(\$1.2)	(\$1.2)	\$0

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

Local Effect: Local highway user revenues will decrease in FY 2014 through 2017 as a result of credits claimed against the corporate income tax. The bill’s criminal penalty provision is not expected to significantly affect local finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill establishes a tax credit for qualifying property owners who complete an approved lead hazard reduction project. Owners of registered rental property, child care centers, day care centers for the elderly, and owner-occupied housing that meet specified requirements are eligible for the credit. A taxpayer may submit to DHCD a proposal for a lead hazard reduction project; this proposal must be submitted in writing before commencement of the project. DHCD must approve or disapprove the project within 60 days after receiving a completed application. DHCD may approve up to \$1.0 million in tax credits in each fiscal year but may not award a tax credit after June 30, 2017.

In order to qualify, all lead hazard reduction activities must be performed in accordance with MDE standards and procedures. Once the project has been completed, an independent inspector accredited by MDE and hired by the owner of the property will issue a certificate indicating that the property owner has met the eligibility requirements for the credit. Tax credits may be carried forward for five taxable years and are not allowable for costs for which the taxpayer has already received a State lead hazard reduction loan or grant.

Both registered rental property and owner-occupied property must contain lead-based paint and have at least two bedrooms to qualify for the tax credit. The amount of the credit is equal to 90% of direct costs of an approved lead hazard reduction project for rental property, 70% for child care and elder care centers, and 90% for owner-occupied property. The maximum credit cannot exceed \$5,000 per unit or \$50,000 total for any taxpayer.

In order to qualify for the credit, properties must at completion of the project:

- 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 or report in applying for the tax credit is guilty of a misdemeanor and subject to a penalty provision (up to a \$50,000 fine and/or a maximum of two years imprisonment).

Current Law: No State tax credit of this type exists. However, several State and federal programs provide funding for lead abatement.

Background: The Lead Paint Poisoning Prevention Program within MDE serves as the coordinating agency of statewide efforts to eliminate childhood lead poisoning. In addition, the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Housing and Urban Development (HUD) provide grants for lead abatement projects and conduct outreach programs.

State Revenues: DHCD may approve a maximum of \$1.0 million in credits annually in fiscal 2014 through 2017. As a result, general fund, HEIF, and TTF revenues may decrease by a total of \$1.0 million annually in fiscal 2014 through 2017. This estimate assumes that credits are earned in the first half of the fiscal year and claimed by the end of the fiscal year. To the extent DHCD does not award the maximum amount of credits in each fiscal year, revenue losses will be less than estimated.

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

State Expenditures: General fund expenditures increase by \$276,200 in fiscal 2014 due to implementation costs at DHCD and the Comptroller's Office, as described below.

DHCD advises that it would incur additional costs beginning in fiscal 2014 as a result of hiring one program administrator, one support staff, and one part-time inspector. As a result, general fund expenditures could increase by \$172,800 in fiscal 2014. It includes salaries, fringe benefits, and ongoing operating expenses.

The Comptroller's Office reports that it will incur a one-time expenditure increase of \$103,400 in fiscal 2014 to add the credit to the personal and corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Positions	2.2
Salary and Fringe Benefits	\$149,534
Operating Expenses	23,245
DHCD Expenditures	\$172,779
Comptroller Expenditures	\$103,400
Total FY 2014 Expenditures	\$276,179

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Penalty Provision

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

Local Revenues: Local highway user revenues will decrease in fiscal 2014 through 2017 as a result of credits claimed against the corporate income tax.

Additional Information

Prior Introductions: HB 554 of 2012 and HB 527 of 2011 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 1449 of 2006 received a favorable with amendments report from the House Ways and Means Committee, passed the House, and received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Similar bills were introduced in the 2005, 2004, 2000, and 1997 sessions. HB 1394 of 2005, HB 1039 of 2004, HB 995 of 2000, and HB 990 of 1997 all received unfavorable reports from the House Ways and Means Committee.

Cross File: None.

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

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