

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1611
 Ways and Means

(Delegate Hixson)

Income Tax Credit - HVAC Energy Efficiency Technology

This bill creates a tax credit against the State income tax for the costs of installing heating, ventilation, and air conditioning (HVAC) energy efficiency technology. The value of the credit is equal to 25% of the costs, not to exceed \$1,500 for a residential property or \$10,000 for a commercial property. The credit may be claimed for qualified technology installed after December 31, 2015.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease significantly beginning in FY 2017 due to credits claimed against the personal and corporate income tax. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues decrease significantly beginning in FY 2017 due to credits claimed against the corporate income tax. General fund expenditures increase by \$32,000 in FY 2017 due to one-time implementation costs at the Comptroller’s Office.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF/SF Rev.	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$32,000	\$0	\$0	\$0	\$0
Net Effect	(\$32,000)	\$0	\$0	\$0	\$0

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

Local Effect: Local highway user revenues distributed from the corporate income tax decrease beginning in FY 2017. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: HVAC energy efficiency technology is heating, ventilation, and air conditioning technology, including a reversible air management system, the goals of which are to improve occupant thermal comfort, improve indoor air quality, and save energy used for space heating and cooling in forced-air systems. A taxpayer claiming the credit must attach documentation of the qualified installation costs.

Current Law: No similar State tax credit exists. Businesses can generally deduct the cost of HVAC systems, which typically lowers federal and State income tax liabilities.

State Revenues: Tax credits may be claimed beginning in tax year 2016. As a result, general fund, TTF, and HEIF revenues may decrease significantly beginning in fiscal 2017. The amount of the revenue loss depends on the types and amount of property that qualify for the tax credit and installation costs. According to the U.S. Census Bureau, about 85% of properties in Maryland use HVAC systems. If most commercially available HVAC systems qualify for the tax credit, the Comptroller's Office estimates that revenue losses could exceed \$200 million annually. If the credit is limited to emerging technologies, revenue losses would be less than estimated.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure of \$32,000 in fiscal 2017 to add the new tax credit. 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): U.S. Census Bureau, Comptroller's Office, Department of Legislative Services

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kb/jrb

Analysis by: Robert J. Rehrmann

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