Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 790 (Delegate Wilkins)
Ways and Means

Income Tax - Green Buildings Tax Credit - Multifamily Housing

This bill creates a credit against the State income tax for up to 25% of the allowable costs incurred to construct or convert a building into a green building. The Maryland Energy Administration (MEA) is required to administer the credit and may award a maximum of $1 million in credits in each tax year. **The bill takes effect July 1, 2020, and applies to tax years 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by up to $1.0 million annually beginning in FY 2021 due to credits claimed against the income tax. General fund expenditures increase by $56,000 in FY 2021 due to one-time computer programming expenses at the Comptroller's Office.

($ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)
GF Expenditure	$0.1	$0	$0	$0	$0
Net Effect	($1.1)	($1.0)	($1.0)	($1.0)	($1.0)

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

Local Effect: Local highway user revenues decrease to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The owner of a green building that has at least 10 dwelling units, meets specified requirements, and is approved by MEA may receive a tax credit for up to 25% of qualified costs incurred after July 1, 2020. The amount of the credit may not exceed the tax liability imposed in the year, and any unused amount of the credit can be carried forward to five tax years. A licensed architect or engineer must certify that the building meets certain energy efficiency or building standards. An applicant is also required to submit an application containing specified information, including a detailed estimate of the allowable costs.

MEA must give priority to applications for eligible buildings (1) in which a majority of current or future tenants qualify as low or moderate income or (2) located in a federal opportunity zone or qualified census tract under the federal low-income housing tax credit. MEA and the Comptroller (1) must annually report specified information about the credit and (2) may adopt regulations implementing the bill.

Current Law: Under the Green Building income tax credit program, MEA was authorized to award a maximum of $25.0 million in tax credits in tax years 2003 through 2011. However, several State and federal tax incentives are provided for low-income housing and/or energy efficient buildings as discussed below.

Background:

Historic Revitalization Tax Credit Program

The Historic Revitalization Tax Credit Program provides tax credits for commercial, small commercial, and owner-occupied residential property rehabilitations. The value of the refundable credit is based on the type of rehabilitation undertaken and is generally equal to 20% of the qualified rehabilitation expenditures. An additional 5% credit may be claimed if certain energy efficiency standards are met or if the rehabilitation qualifies as affordable housing under the federal low-income housing tax credit (LIHTC).

Federal Low-income Housing Tax Credit

LIHTC provides an incentive for the development and rehabilitation of affordable rental housing. These nonrefundable federal housing tax credits are awarded to developers of qualified rental projects via a competitive application process administered by state housing finance authorities. LIHTCs are first allocated to each state according to its population. State housing agencies allocate credits to developers of rental housing according to federally required, but state created, Qualified Allocation Plans (QAPs). Federal law requires that the QAP give priority to projects that serve the lowest income households and that remain affordable for the longest period of time.

Workforce Housing Project Tax Credit

Chapter 211 of 2019 established a credit against the State income tax for a qualified workforce housing project located within an opportunity zone. The housing must either be rental housing that is affordable to a household with an aggregate annual income of between 50% and 100% of the area median income or homeownership housing that is affordable to a household with an aggregate annual income of between 60% and 120% of the area median income. In target areas under the Maryland Mortgage Program, the homeownership housing affordability threshold is equal to between 60% and 150% of the area median income.

State Revenues: Tax credits may be claimed beginning in tax year 2020. As a result, general fund revenues will decrease by $1.0 million annually beginning in fiscal 2021. This estimate assumes that MEA awards the maximum authorized amount of credits in each tax year and tax credits are claimed against the personal income tax. To the extent tax credits are claimed against the corporate income tax, a portion of tax credits claimed will decrease Transportation Trust Fund and Higher Education Investment Fund revenues.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of $56,000 in fiscal 2021 to add the tax credit to the corporate and personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

MEA advises that it can administer the program within existing budgeted resources.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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