

**Department of Legislative Services**  
 Maryland General Assembly  
 2020 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 902 (Senator Smith)  
 Budget and Taxation

**Coal – Tax Credits and Exemption – Repeal**

This bill accelerates the termination date for the Maryland-mined coal tax credit from tax year 2021 to 2020. The bill also repeals the sales tax exemption for the purchase of coal for use in certain residential properties. **The bill takes effect June 1, 2020.**

**Fiscal Summary**

**State Effect:** General fund revenues increase by \$3.1 million in FY 2021, reflecting the revenue losses associated with the maximum authorized amount of Maryland-mined coal tax credits under current law and estimated sales tax exemptions. Future year estimates assume a stable amount of sales tax exemptions. General fund expenditures increase minimally in FY 2021 due to one-time notification costs for the Comptroller’s Office.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	\$3,050,000	\$50,000	\$50,000	\$50,000	\$50,000
Expenditure	0	0	0	0	0
Net Effect	\$3,050,000	\$50,000	\$50,000	\$50,000	\$50,000

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

**Analysis**

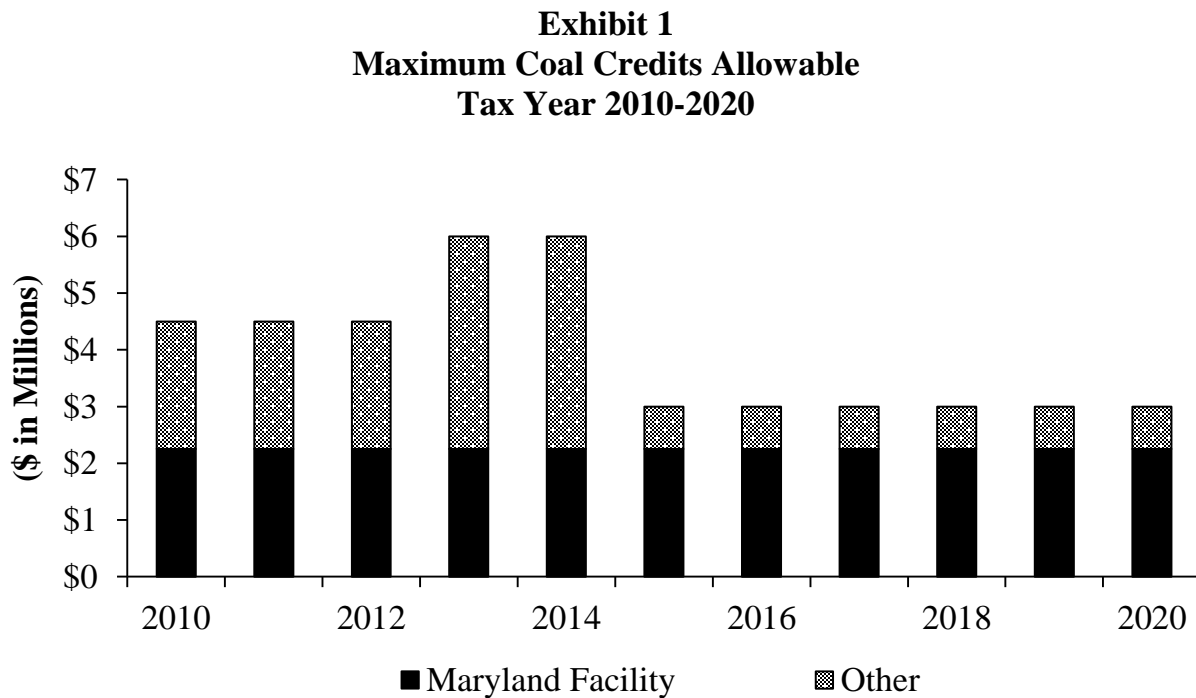
**Current Law:** Public service companies in Maryland can claim a \$3 per ton credit for the amount of Maryland-mined coal purchased in a calendar year. This nonrefundable tax credit can be claimed against the public service company franchise tax. Certain

co-generators and electricity suppliers that are not subject to the public service company franchise tax may also claim a nonrefundable credit of \$3 per ton against the State income tax.

The sales and use tax does not apply to a sale of coal, firewood, heating oil, or propane gas or similar liquefied gas for use in residential property that contains no more than four units, cooperative housing, condominiums, or other similar residential living arrangements.

**Background:** Chapter 792 of 1988 established the tax credit for Maryland-mined coal purchased by public service companies, with a termination date of June 30, 1991. Subsequent legislation expanded and extended the credit; Chapters 247 and 248 of 2006 limited the maximum annual amount of credits that could be awarded beginning with tax year 2007 and terminated the credit in tax year 2021. The Budget Reconciliation and Financing Act of 2009 (Chapter 487) further reduced the tax credits that could be claimed in tax years 2009 through 2012. Since calendar 2015, a maximum of \$3.0 million in credits can be claimed in each year.

Beginning with tax year 2007, the State Department of Assessments and Taxation (SDAT) is required to reserve \$2.25 million of the annual credits for purchases of Maryland-mined coal that will be used in a Maryland facility. **Exhibit 1** shows the maximum amount of credits that SDAT may award in each calendar year, including the amount that must be reserved for purchases of coal that will be used in a Maryland facility.



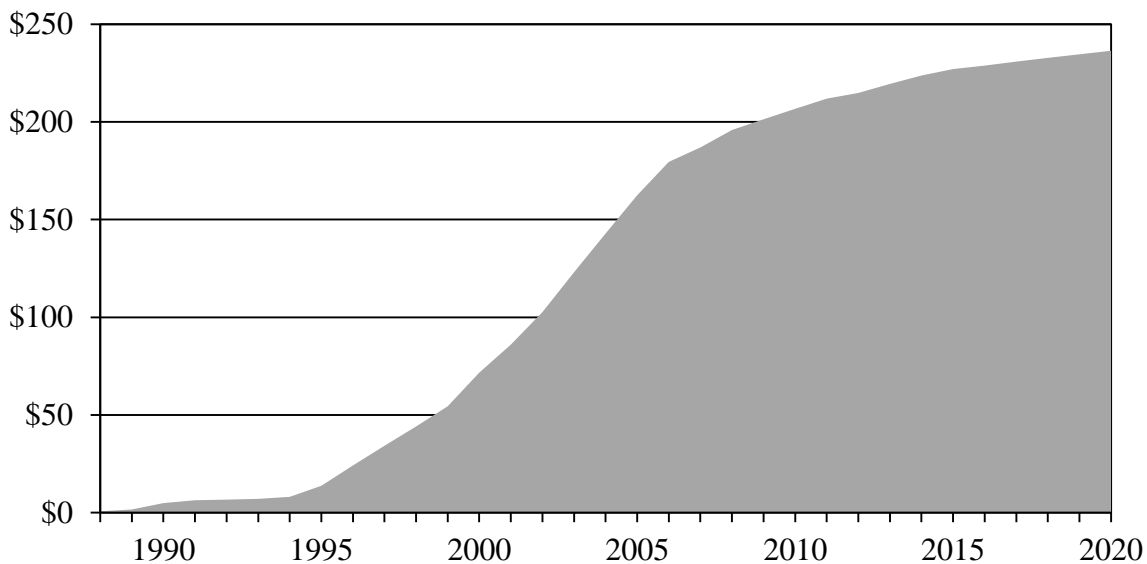
Source: State Department of Assessments and Taxation; Department of Legislative Services

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In tax year 2015, SDAT approved the maximum \$3.0 million in tax credits; however, an average of \$1.8 million in credits have been approved in subsequent tax years. Through the termination of the credit, a total of \$171.5 million (\$236.4 million adjusted for inflation) in public service company franchise tax credits will be claimed, plus an additional amount of unknown credits against the corporate income tax. **Exhibit 2** shows the cumulative amount of credits claimed against the public service company franchise tax.

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**Exhibit 2**  
**Cumulative Credits Claimed**  
**Tax Year 1989-2020**  
**(\$ in Millions)**



Note: Credits are in constant 2020 dollars and do not include additional amounts claimed against the corporate income tax. In recent years, no or minimal credits have been claimed against the corporate income tax.

Source: State Department of Assessments and Taxation; Department of Legislative Services

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**State Revenues:** The bill repeals the Maryland-mined coal tax credit in tax year 2020 and also repeals the sales tax exemption for the purchase of coal for use in certain residential properties beginning on June 1, 2020. As a result, general fund revenues may increase by \$3.1 million in fiscal 2021 and by \$50,000 annually beginning in fiscal 2022.

The estimated revenue gain from repealing the Maryland-mined coal tax credit assumes the maximum amount of credits will be awarded in tax year 2020. To the extent fewer credits are awarded, the revenue increase will be less than estimated.

According to the U.S. Census Bureau, coal is used to provide heating for about 2,200 Maryland homes. Based on information on the retail price and estimated average usage, general fund revenues may increase by \$50,000 annually beginning in fiscal 2021 due to the repeal of the exemption. This estimate assumes that a significant percentage of the coal used by residents is purchased out-of-state.

**State Expenditures:** The Comptroller's Office advises it will incur a one-time expense to notify sales and use tax account holders of the sales tax change. Accordingly, general fund expenditures may increase by up to \$81,300 in fiscal 2021.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 919 (Delegate Moon, *et al.*) - Ways and Means.

**Information Source(s):** Comptroller's Office; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 14, 2020  
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