

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 563
 Ways and Means

(Delegate Mosby, *et al.*)

Income Tax - Lead Remediation Credit

This bill creates a credit against the State income tax for the costs incurred for qualifying lead hazard reduction projects located within Baltimore City. 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 \$250,000 in credits in each fiscal year. **The bill takes effect July 1, 2020, and applies to tax year 2020 through 2022. The bill terminates June 30, 2023.**

Fiscal Summary

State Effect: General fund revenues decrease by \$250,000 annually in FY 2021 through 2023 due to credits claimed against the personal income tax. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues decrease in FY 2021 through 2023 to the extent credits are claimed against the corporate income tax. General fund expenditures increase by \$121,700 in FY 2021 due to implementation costs at DHCD and the Comptroller’s Office. Future year estimates reflect ongoing expenditures and termination of the bill.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$250,000)	(\$250,000)	(\$250,000)	\$0	\$0
GF Expenditure	\$121,700	\$62,500	\$48,400	\$0	\$0
Net Effect	(\$371,700)	(\$312,500)	(\$298,400)	\$0	\$0

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

Local Effect: Local highway user revenues will decrease as a result of any 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 State income tax credit for qualifying property owners who complete an approved lead hazard reduction project located within Baltimore City. Owners of registered rental property 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 \$250,000 in tax credits in each fiscal year.

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 the direct costs of an approved lead hazard reduction project. The maximum credit cannot exceed \$5,000 per unit.

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 of 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, State and federal programs provide funding for lead abatement.

Background:

Lead Poisoning in Children

According to MDE's 2017 [*Maryland Childhood Blood Lead Surveillance*](#) report, the most recent data available, 151,206 blood lead tests were reported to the Childhood Lead Registry from 143,200 children ages 0 through 18 in 2017. A total of 131,832 tests were conducted on children younger than age 6, which represents a 19.1% increase in testing for this age group compared to the average during calendar 2010 through 2015. Of the 131,832 children tested in 2017, 388 children (or 0.3% of those tested) younger than age 6 were identified as having a blood lead level of greater than 10 µg/dL, up slightly from 355 in 2016. Of the 388 cases in 2017, 305 were new cases. An additional 1,661 children had blood lead levels between 5 and 9 µg/dL, down from 1,729 in 2016. Of those 1,661 cases in 2017, 1,301 were new cases. According to MDE, much of the decline in blood lead levels in recent years is the result of implementation and enforcement of Maryland's lead law.

According to the Centers for Disease Control and Prevention (CDC), there is no safe level of lead exposure, and adverse health effects exist in children at blood lead levels less than 10 µg/dL. Since 2012, CDC has urged health care providers and authorities to follow up on any young child with a level as low as 5 µg/dL. CDC is no longer using the 10 µg/dL level or referring to a "level of concern." The new reference level of 5 µg/dL represents the blood lead levels of children (ages one through five) in the highest 2.5 percentiles for blood lead levels. According to CDC, as of February 22, 2018, 18 states and the District of Columbia require some action to be taken when a child's blood test shows at least 5 µg/dL, either through explicitly adopting the CDC's 5 µg/dL standard, or by incorporating the CDC's reference level.

Chapter 341 of 2019 redefined elevated blood lead level to conform to the blood lead reference level established by CDC.

Maryland 2015 Lead Targeting Plan

In October 2015, the State released the Maryland Targeting Plan for Areas at Risk for Childhood Lead Poisoning (the 2015 targeting plan). The 2015 targeting plan and accompanying proposed regulations called for blood lead testing at 12 months and 24 months of age throughout the State. Previously, only children living in certain at-risk zip codes or who were enrolled in Medicaid were targeted for testing. These initiatives have significantly increased the number of children receiving blood lead testing statewide.

State Revenues: Tax credits may be claimed in tax years 2020 through 2022. As a result, general fund revenues will decrease by \$250,000 annually in fiscal 2021 through 2023.

This estimate assumes that DHCD awards the maximum authorized amount of credits in each fiscal year and all 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 TTF and HEIF revenues.

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

State Expenditures: General fund expenditures increase by \$121,700 in fiscal 2021, due to implementation costs at DHCD and the Comptroller's Office, as described below.

Administrative Expenses

DHCD must review applications, evaluate and certify projects, and oversee the program. The Department of Legislative Services estimates that general fund expenditures will increase by \$65,688 in fiscal 2021 as a result of hiring one program administrator. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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

Contractual Position	1
Salary and Fringe Benefits	\$60,163
Operating Expenses	<u>5,525</u>
DHCD Expenditures	\$65,688
Comptroller's Expenditures	<u>56,000</u>
Total FY 2021 State Expenditures	\$121,688

Penalty Provision

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

Additional Information

Prior Introductions: As amended by the House Ways and Means Committee, HB 956 of 2019 passed the House and received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Similar legislation was introduced in the 2011, 2012, and 2013 sessions. HB 389 of 2013, 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.

Designated Cross File: None.

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

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mm/jrb

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