

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 982 (Delegate Lehman)
 Ways and Means

Income Tax – Mechanical Insulation Installation Tax Credit

This bill creates a credit against the State income tax for up to 30% of the allowable costs incurred to install mechanical insulation on a commercial or industrial building. The Maryland Energy Administration (MEA) is required to administer the credit and may award a maximum of \$5 million in credits in each tax year. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by up to \$5.0 million annually beginning in FY 2022 due to credits claimed against the income tax. Administrative costs at MEA and the Comptroller’s Office may increase by \$143,700 in FY 2022 and by \$82,900 in FY 2026.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)
GF Expenditure	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	(\$5.1)	(\$5.1)	(\$5.1)	(\$5.1)	(\$5.1)

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: Qualified expenses are a capital investment of at least \$10,000 for the installation of mechanical insulation on a commercial or industrial building consistent with the minimum American Society of Heating, Refrigerating, and Air-conditioning Engineers standard for certain buildings. Qualified expenses include labor costs paid for the preparation, assembly, and installation of the insulation.

Mechanical insulation is insulation materials, facings, and accessory products used for thermal requirements for mechanical piping and equipment, hot and cold applications, and heating, ventilation, and air-conditioning applications.

The amount of the credit may generally not exceed 50% of the tax liability imposed in the tax year, and any unused amount of the credit may not be carried forward to any other tax year.

MEA must (1) adopt regulations in consultation with the Comptroller implementing the bill and (2) annually report specified information about the credit.

The tax credit program is not subject to termination.

Current Law: No similar State tax credit exists.

State Revenues: Tax credits may be claimed beginning in tax year 2021. As a result, general fund revenues will decrease by \$5.0 million annually beginning in fiscal 2022. 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: Administrative costs at MEA and the Comptroller's Office may increase by \$143,700 in fiscal 2022 and by \$82,900 in fiscal 2026.

Maryland Energy Administration

The Department of Legislative Services estimates that MEA requires one program administrator to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$83,656 in fiscal 2022. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2021. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$77,911
Other Operating Expenses	<u>5,745</u>
Total FY 2022 Expenditures	\$83,656

Future year expenditures reflect a salary with annual increases and employee turnover as well as ongoing operating expenses.

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$60,000 in fiscal 2022 to add the tax credit to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 738 (Senator Rosapepe) - Budget and Taxation.

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

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an/jrb

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