

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 198

(Senator Kramer)

Budget and Taxation

Income Tax - Credit for Energy Efficiency Upgrades - Passive Houses

This bill creates a nonrefundable State income tax credit for the eligible costs incurred for an energy efficiency upgrade to a specified residential building that uses components certified by the Passive House Institute and brings the building into compliance with criteria established by the institute. The owner of a single-family residence or a multi-family rental property can claim a tax credit equal to 10% of the total eligible costs incurred during the tax year, not to exceed \$2,000.

The Maryland Energy Administration (MEA) must approve tax credit applications and, in consultation with the Comptroller, adopt regulations implementing the bill. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: State revenues may decrease beginning in FY 2023 due to credits claimed against the income tax. General fund expenditures increase by \$60,000 in FY 2022 due to one-time implementation costs at the Comptroller's Office.

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: An energy efficiency upgrade is an improvement made on or after July 1, 2021, to a component of the duct system or envelope of a building that meets or exceeds the minimum R-value of the component, as established by the current version of

the International Energy Conservation Code. An energy efficiency upgrade includes (1) additional insulation; (2) energy efficient windows and storm windows; (3) weather stripping and caulking; and (4) duct sealing and insulation.

A taxpayer may not claim the tax credit in a year in which the Governor declares a state of emergency and (1) declares that economic disruption is expected or the cause of the emergency or (2) orders the general cessation of business operations in one or more political subdivisions. If the taxpayer is unable to claim the tax credit due to these conditions being met, the credit can be carried forward to the next tax year.

The tax credit program is not subject to termination.

Current Law: No exact State tax credit exists for these types of expenditures; however, numerous federal and State programs provide grants, loans, rebates, and/or tax credits for qualified energy efficiency expenditures. This includes the exemption from the State sales and use tax for machinery and equipment used to produce Energy Star windows and entry doors.

On March 25, 2020, Governor Lawrence J. Hogan, Jr., declared a state of emergency and catastrophic health emergency in an effort to control and prevent the spread of COVID-19. The state of emergency was most recently renewed on December 23, 2020.

State Revenues: Tax credits may be awarded beginning with tax year 2021. Based on an analysis of similar legislation, general fund revenues may decrease by an average of \$8.7 million annually. Due to the current state of emergency, it is assumed that tax credits awarded in tax year 2021 will be carried forward to tax year 2022. Accordingly, general fund revenue losses are not expected to occur in fiscal 2022 and will be correspondingly higher in fiscal 2023.

This estimate also assumes that 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 \$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.

In addition, MEA may incur additional costs beginning in fiscal 2022 in order to administer the tax credit program.

Additional Information

Prior Introductions: HB 1364 of 2020, a similar bill, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: HB 74 (Delegate Brooks) - Ways and Means.

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

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Analysis by: Robert J. Rehrmann

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