

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 85
(Delegate Brooks)
Ways and Means

Income Tax – Healthy Indoor Air Quality Tax Credit

This bill creates a nonrefundable credit against the State income tax for 50% of the costs incurred to purchase and install indoor air quality equipment for use in certain residential or small business commercial properties. The Comptroller's Office is required to administer the credit and may, in consultation with the Maryland Energy Administration (MEA), adopt regulations implementing the bill. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease significantly beginning in FY 2024 due to credits claimed against the personal income tax. Administrative costs for the Comptroller's Office may increase by \$123,700 in FY 2023. Future administrative costs reflect ongoing expenditures.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$123,700	\$75,000	\$77,300	\$80,000	\$82,900
Net Effect	(\$123,700)	(\$75,000)	(\$77,300)	(\$80,000)	(\$82,900)

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: Indoor air quality equipment is equipment installed in an owner-occupied home, rental dwelling unit, or small business commercial building by a licensed contractor that (1) improves air quality, including ventilation and filtration systems, bipolar ionization technologies, or ultraviolet technologies, and (2) is certified as indoor air quality equipment.

An applicant is required to submit an application containing specified information and obtain from the Comptroller certification of the air quality equipment. In order to qualify, a rental dwelling unit is a dwelling unit in a multifamily residential building unit with four or fewer dwelling units, while a small business must employ 50 or fewer full-time employees.

The credit is equal to the lesser of \$1,000 (\$2,000 for a small business) or the State income tax imposed in the year, and any unused amount of the credit may not be carried forward to any other tax years.

The Comptroller (1) must, in consultation with MEA, publish on its website a list of approved air quality equipment and (2) may not issue a certification in a year in which the Governor declares a state of emergency. For a year in which the Comptroller suspends certifications, a person may obtain a certification in the immediately following tax year.

Current Law: No similar State tax credit exists.

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 renewed for most of calendar 2021. Most recently, Governor Hogan declared a state of emergency on January 4, 2022, to control and prevent the spread of COVID-19.

State Revenues: Tax credits may be awarded beginning with tax year 2022. Based on an analysis of similar legislation, general fund revenues may decrease by an average of about \$20.0 million annually. This estimate 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.

Due to the current state of emergency, it is assumed that any tax credits earned in tax year 2022 will be certified in tax year 2023. Accordingly, general fund revenue losses are not expected to occur in fiscal 2023 and will be correspondingly higher in fiscal 2024.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$40,000 in fiscal 2023 to add the tax credit to the personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

The Department of Legislative Services estimates the Comptroller's Office will require one program administrator to process and approve the tax credit applications each year. Therefore, total general fund expenditures increase by \$123,700 in fiscal 2023. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2022. 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	5,745
Programming Expenditures	<u>40,000</u>
Total FY 2023 Expenditures	\$123,656

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

Additional Information

Prior Introductions: HB 778 of 2021, a similar bill, 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 Energy Administration; Department of Legislative Services

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