

Department of Legislative Services  
Maryland General Assembly  
2022 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 58  
Ways and Means

(Delegate Brooks)

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**Income Tax - Credit for Energy Efficiency Upgrades - Passive Houses**

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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 multifamily 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, 2022, and applies to tax year 2022 and beyond.**

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**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 \$40,000 in FY 2023 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.

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**Analysis**

**Bill Summary:** An energy efficiency upgrade is an improvement made on or after July 1, 2022, to a component of the duct system or envelope of a building and 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 is 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.

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 \$8.7 million annually beginning in fiscal 2023.

Tax credits may not be claimed in a year in which the Governor declares a state of emergency and certain conditions are met. To the extent these conditions are met in calendar 2022, tax credits awarded will be carried forward to calendar (tax year) 2023. Accordingly, general fund revenue losses may not occur in fiscal 2023 and would be correspondingly higher in fiscal 2024.

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 \$40,000 in fiscal 2023 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 2023 to administer the tax credit program.

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### **Additional Information**

**Prior Introductions:** Similar legislation was introduced in the 2020 and 2021 sessions. SB 198 of 2021 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 74, received a hearing in the House Ways and Means Committee, but no further action was taken. HB 1364 of 2020 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Designated Cross File:** SB 45 (Senator Kramer) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - January 12, 2022  
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