HB 965

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 965 (Delegate Henson)
Ways and Means

Income Tax – Credit for Mold Remediation of Residential Rental Properties

This bill authorizes a nonrefundable credit against the State income tax for costs incurred by a taxpayer for mold remediation performed on residential rental property during the taxable year, not to exceed $10,000. To claim the credit, a taxpayer must submit an application to the Department of Housing and Community Development (DHCD), which must issue tax credit certificates to eligible taxpayers on a first-come, first-served basis and may not issue more than $600,000 in tax credit certificates annually. The bill requires DHCD to adopt regulations to carry out the bill's provisions in consultation with the Comptroller and the Maryland Department of the Environment (MDE). **The bill takes effect July 1, 2023, and applies to tax years 2023 through 2032. The bill terminates June 30, 2033.**

Fiscal Summary

State Effect: General fund revenues decrease by up to $600,000 annually beginning in FY 2024. To the extent credits are claimed against the corporate income tax, Higher Education Investment Fund (HEIF) revenues and Transportation Trust Fund (TTF) revenues and expenditures are also affected (not shown below). General fund expenditures increase by $130,000 in FY 2024; future years reflect annualization and ongoing costs.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	($600,000)	($600,000)	($600,000)	($600,000)	($600,000)
GF Expenditure	$130,000	$78,800	$82,300	$86,000	$90,600
Net Effect	($730,000)	($678,800)	($682,300)	($686,000)	($690,600)

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

Local Effect: Local highway user revenues decrease by a minimal amount beginning in FY 2024 to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: "Mold remediation" means (1) removing, cleaning, sanitizing, demolishing, or any other treatment performed to address a mold hazard, mold, or dampness; or (2) abatement of the underlying cause of a mold hazard, mold, or dampness.

A taxpayer may be eligible for the credit if the taxpayer is the owner of a residential rental property who performs or pays for the performance of mold remediation on the residential rental property. A credit may not be claimed for mold remediation activities performed before January 1, 2023, or after December 31, 2032. Any unused amount of credit may not be carried forward to any other taxable year.

Of the total amount of credit that may be issued annually, DHCD generally must make 40% available for taxpayers who own single family residential properties and 60% available for taxpayers who own multifamily residential properties.

DHCD must report to the Comptroller on tax credit certificates issued during the prior taxable year by January 31 annually. In addition, by October 1, 2024, and annually thereafter, DHCD and the Comptroller must jointly report to the General Assembly specified information relating to tax credits claimed, including the geographical distribution of credits claimed. The Comptroller must ensure that the information is presented and classified in a manner consistent with the confidentiality of tax return information.

Current Law: No similar State income tax credit exists. Rental property owners under certain circumstances may deduct mold remediation expenses as ordinary and necessary business expenses on their federal income tax return, which typically results in a lower federal and State income tax liability.

State Revenues: General fund revenues decrease by up to $600,000 annually due to credits claimed against the State income tax. To the extent credits are claimed against the corporate income tax, a portion of the foregone tax revenues will reduce HEIF and TTF revenues.

State Expenditures:

Comptroller's Office

Based on analyses of similar legislation, it is estimated that general fund expenditures for the Comptroller's Office may increase by $63,000 in fiscal 2024 for one-time changes to the Comptroller's tax systems necessary to implement the State income tax credit established under the bill.

Department of Housing and Community Development

DHCD advises that existing staff cannot absorb the additional duties imposed by the bill. DHCD further advises that as many as three full-time regular positions and one half-time regular position may be needed in order to administer the tax credit. However, the Department of Legislative Services notes that DHCD can likely administer the tax credit with one additional full-time employee.

Thus, general fund expenditures for DHCD increase by $66,966 in fiscal 2024, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one program administrator to process tax credit applications and assist in developing regulations. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$59,557
Other Operating Expenses	7,409
Total FY 2024 DHCD Expenditures	**$66,966**

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

To the extent additional personnel are required, general fund expenditures increase further. It is assumed that, upon the bill's termination after fiscal 2033, additional staff are absorbed within DHCD for other duties.

MDE advises that it does not have the staff expertise in mold remediation to assist DHCD in developing regulations as required under the bill. Thus, to the extent temporary contractual assistance is needed in order to develop the required regulations, general fund expenditures are potentially greater in fiscal 2024.

Highway User Revenue Grants

A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues). Thus, TTF expenditures for highway user revenue grants to local governments decrease by a minimal amount beginning in fiscal 2024 to the extent credits are claimed against the corporate income tax.

Local Revenues: Local highway user revenues decrease by a minimal amount beginning in fiscal 2024 to the extent credits are claimed against the corporate income tax.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 320 and HB 361 of 2022, which proposed a similar income tax credit (among other provisions).

Designated Cross File: None.

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

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km/jrb

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