

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 538
Ways and Means

(Delegates Love and Pena-Melnyk)

Budget and Taxation

Income Tax - Subtraction Modification - Water Affordability Assistance

This bill authorizes a subtraction modification against Maryland income tax for the amount of federal, State, or local water affordability assistance received by an individual during the taxable year. For each year that a unit of State or local government administers a water affordability assistance program, the unit must provide to the Comptroller specified information on a quarterly basis, including the names of water affordability assistance programs administered by the unit, a list of recipients of water affordability assistance, and the amount and date of assistance provided. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease by a minimal amount beginning in FY 2024. In FY 2024 only, general fund expenditures increase by \$43,000 and federal fund expenditures increase by \$28,800.

Local Effect: Local income tax revenues may decrease by a minimal amount beginning in FY 2024. Baltimore City may incur minimal, one-time costs in order to implement the bill's reporting requirement.

Small Business Effect: None.

Analysis

Current Law: State law does not specifically provide for an income tax subtraction modification for water affordability assistance received by an individual, as contemplated under the bill.

Home water assistance benefits received by eligible households under the federal Low Income Household Water Assistance Program (LIHWAP), as authorized under the Consolidated Appropriations Act of 2021, may not be considered income of such households for income tax purposes.

Baltimore City's new Water4All billing discount program offers water affordability assistance to residential households with income of less than 200% of the federal poverty level. According to the program's webpage, for tenants, the discount is provided in the form of a monthly or one-time payment that is counted as additional income for the tenant.

Internal Revenue Service Publication 525 specifies that governmental benefit payments from a public welfare fund based upon need should not be included in income for federal income tax purposes.

State/Local Revenues: General fund revenues and local income tax revenues may decrease beginning in fiscal 2024 to the extent additional subtraction modifications are claimed against the personal income tax as a result of the bill. While the precise impact cannot be readily determined, it is anticipated that any effect on State and local revenues will be relatively minimal, since affected taxpayers are likely to be from lower-income households.

As noted above, LIHWAP benefits received by households are not taxable for federal or State income tax purposes, however, as also noted above, water affordability assistance provided to Baltimore City residents under the Water4All billing discount program may be considered taxable income in some cases. The Department of Legislative Services is currently unaware of other water assistance benefits that may be subject to State income tax.

State/Local Expenditures: General fund expenditures for the Comptroller's Office increase by \$43,000 in fiscal 2024 only for one-time changes to the Comptroller's tax systems. In addition, federal fund expenditures for the Department of Human Services increase by \$28,800 in fiscal 2024 only for one-time changes to the Maryland Total Human Services Information Network necessary to implement the bill's reporting requirement. The Department of Housing and Community Development may similarly incur limited, one-time costs to report information relating to recipients of Housing Assistance Fund assistance for water bill arrearages; however, a precise estimate is unavailable at this time.

It is assumed that Baltimore City may also incur limited, one-time administrative costs in order to implement the bill's reporting requirement. As discussed above, Baltimore City administers a water affordability assistance program for city residents.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 380 (Senator M. Washington) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Human Services; Public Service Commission; Maryland Advisory Committee to the U.S. Commission on Civil Rights; U.S. Department of Health and Human Services; Department of Housing and Community Development; Internal Revenue Service; Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2023
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