

Department of Legislative Services

Maryland General Assembly

2026 Session

FISCAL AND POLICY NOTE

First Reader

House Bill 87

(Delegate Vogel)

Ways and Means

Income Tax - Energy Efficient Home Improvement Credit

This bill establishes a nonrefundable credit against the personal income tax for up to 30% of costs paid or incurred during the tax year for energy efficient home improvements, not to exceed \$3,200. The credit is modeled on the federal energy efficient home improvement credit, which was terminated for tax years after 2025 under the federal One Big Beautiful Bill Act (OBBBA) of 2025. An individual must provide any documents or information required by the Comptroller to receive a credit allowed under the bill. **The bill takes effect July 1, 2026, and applies to tax year 2026 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated \$60.9 million in FY 2027; future years reflect projected growth in authorized tax credits. General fund expenditures for the Comptroller's Office increase by approximately \$62,200 in FY 2027; future years reflect annualization and ongoing costs.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF Revenue	(\$60.9)	(\$64.1)	(\$67.5)	(\$71.0)	(\$74.8)
GF Expenditure	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	(\$60.9)	(\$64.2)	(\$67.5)	(\$71.1)	(\$74.9)

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

Local Effect: None.

Small Business Effect: Potential meaningful, as discussed below.

Analysis

Bill Summary: “Energy efficient home improvement” means a home energy audit, a qualified energy efficiency improvement, or a residential energy property expenditure as each term is defined in Internal Revenue Code § 25C (energy efficient home improvement credit). An individual may claim a credit under the bill if the energy efficient home improvement was made to the residence of the taxpayer and originally placed in service by the taxpayer. The credit is not allowed for energy efficient home improvements purchased with subsidized energy financing (as defined).

Annual limitations on the allowable credit for specified categories of energy efficient home improvements mirror those under the expiring federal credit. Specifically, a credit allowed under the bill may not exceed:

- \$150 for a home energy audit;
- \$600 total for exterior windows and exterior skylights;
- \$500 total for all exterior doors, at a rate of up to \$250 per door;
- \$2,000 for the purchase or installation of a heat pump, heat pump water heater, or biomass stove or biomass boiler; or
- \$600 for any other residential energy property expenditure.

The credit for energy efficient home improvements other than the purchase or installation of a heat pump, heat pump water heater, or biomass stove or boiler may not exceed \$1,200 for a given tax year.

An individual may claim an expenditure on an energy efficient home improvement that was made to multiple dwelling units; the amount of credit allowed must be computed separately with respect to the amount of the expenditure for each dwelling unit. The bill further specifies rules for allocating creditable expenditures among joint occupants of a dwelling unit, tenant-stockholders of a cooperative housing corporation, or members of a condominium management association. If less than 80% of the use of an energy efficient home improvement is for nonbusiness purposes, only the portion of the expenditure for the improvement allocable for nonbusiness purposes may be considered.

In general, an expenditure for an energy efficient home improvement must be treated as being made when the original installation of the improvement is completed. For an energy efficient home improvement made in connection with construction or reconstruction of a residence, the expenditure is treated as being made when the original use of the residence by the taxpayer begins.

Current Law: As discussed above, the bill is modeled on the federal nonrefundable energy efficient home improvement credit (formerly the nonbusiness energy property credit), as modified and enhanced under the federal Inflation Reduction Act of 2022 for tax years after 2022. OBBBA accelerated the termination of the federal credit from 2033 to 2026; thus, the federal credit is unavailable for property placed in service after December 31, 2025. Maryland does not offer a State income tax credit to individuals for energy efficient home improvements, specifically.

State Revenues: General fund revenues decrease by an estimated \$60.9 million in fiscal 2027 and similar amounts annually thereafter due to an increase in credits claimed against the personal income tax. This estimate is based on (1) the amount of federal energy efficient home improvement credits claimed by Maryland taxpayers for tax year 2023 as reported by the Internal Revenue Service (IRS) and (2) the estimated federal revenue effects of the termination of the federal credit under OBBBA published by the U.S. Joint Committee on Taxation. For context, according to statistics published by IRS, Maryland taxpayers claimed over \$52 million in federal energy efficient home improvement tax credits for tax year 2023.

State Expenditures: General fund expenditures for the Comptroller's Office increase by an estimated \$62,218 in fiscal 2027, which reflects a 90-day start-up delay from the bill's July 1, 2026 effective date. This estimate reflects the cost of hiring one full-time revenue examiner to process and validate tax credit claims under the bill. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$53,077
Other Operating Expenses	<u>9,141</u>
Total FY 2027 State Expenditures	\$62,218

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

Small Business Effect: While the primary beneficiaries of the tax benefit established under the bill are individuals, small businesses involved in the manufacture, sale, or installation of energy efficient residential equipment may benefit to the extent the bill results in increased demand for energy efficient home improvements.

Additional Information

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

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland Energy Administration; Internal Revenue Service; U.S. Joint Committee on Taxation; Department of Legislative Services

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sj/jrb

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