

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 956
 Ways and Means

(Delegate Mosby, *et al.*)

Income Tax - Lead Remediation Credit

This bill creates a tax credit against the State income tax for the costs incurred for qualifying lead hazard reduction projects. The Department of Housing and Community Development (DHCD) is required to administer the credit and, in cooperation with the Maryland Department of the Environment (MDE) and the Comptroller’s Office, adopt regulations to implement the credit. DHCD may award a maximum of \$500,000 in credits in each fiscal year. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$500,000 annually beginning in FY 2020 due to credits claimed against the income tax. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues decrease beginning in FY 2020 to the extent credits are claimed against the corporate income tax. General fund expenditures increase by \$237,100 in FY 2020 due to implementation costs at DHCD and the Comptroller’s Office. Future years reflect ongoing expenditures.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)
GF Expenditure	\$237,100	\$168,400	\$174,000	\$180,000	\$186,200
Net Effect	(\$737,100)	(\$668,400)	(\$674,000)	(\$680,000)	(\$686,200)

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

Local Effect: Local highway user revenues will decrease as a result of credits claimed against the corporate income tax. The bill’s criminal penalty provision is not expected to significantly affect local finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill establishes a State income tax credit for qualifying property owners who complete an approved lead hazard reduction project. Owners of registered rental property and owner-occupied housing that meet specified requirements are eligible for the credit. A taxpayer may submit to DHCD a proposal for a lead hazard reduction project; this proposal must be submitted in writing before commencement of the project. DHCD must approve or disapprove the project within 60 days after receiving a completed application. DHCD may approve up to \$500,000 in tax credits in each fiscal year.

In order to qualify, all lead hazard reduction activities must be performed in accordance with MDE standards and procedures. Once the project has been completed, an independent inspector accredited by MDE and hired by the owner of the property will issue a certificate indicating that the property owner has met the eligibility requirements for the credit. Tax credits may be carried forward for five taxable years and are not allowable for costs for which the taxpayer has already received a State lead hazard reduction loan or grant.

Both registered rental property and owner-occupied property must contain lead-based paint and have at least two bedrooms to qualify for the tax credit. The amount of the credit is equal to 90% of direct costs of an approved lead hazard reduction project. The maximum credit cannot exceed \$5,000 per unit.

In order to qualify for the credit, properties must at completion of the project:

- satisfy the “full risk reduction” standard;
- have a walk-off floor mat for all exterior entryways;
- not have any exterior surfaces with chipping, peeling, or flaking paint;
- have lead-safe windows in all specified living areas; and
- pass a lead-contaminated dust test.

Any person who knowingly makes a false statement or report in applying for the tax credit is guilty of a misdemeanor and subject to a penalty provision (up to a \$50,000 fine and/or a maximum of two years imprisonment).

Current Law: No State tax credit of this type exists. However, State and federal programs provide funding for lead abatement.

Background:

State Lead Poisoning Prevention Program

Chapter 114 of 1994 established the Lead Poisoning Prevention Program within MDE. The MDE program serves as the coordinating agency of statewide efforts to eliminate childhood lead poisoning.

In October 2015, the State released the *Maryland Targeting Plan for Areas at Risk for Childhood Lead Poisoning* (the 2015 targeting plan). The 2015 targeting plan and accompanying proposed regulations called for blood lead testing at 12 months and 24 months of age throughout the State. Previously, only children living in certain at-risk zip codes or who were enrolled in Medicaid were targeted for testing. These initiatives have significantly increased the number of children receiving blood lead testing statewide.

Lead Poisoning in Children

According to the federal Centers for Disease Control and Prevention (CDC), there is no safe level of lead exposure, and adverse health effects exist in children at blood lead levels less than 10 micrograms per deciliter. Since 2012, CDC has urged health care providers and authorities to follow up on any young child with a level as low as 5 micrograms per deciliter ($\mu\text{g}/\text{dL}$). CDC is no longer using the 10 $\mu\text{g}/\text{dL}$ level or referring to a “level of concern.” The new reference level of 5 $\mu\text{g}/\text{dL}$ represents the blood lead levels of children (ages 1 through 5) in the highest 2.5 percentiles for blood lead levels.

According to MDE’s 2016 *Childhood Blood Lead Surveillance in Maryland* report, 137,377 blood lead tests were reported to the Childhood Lead Registry from 129,697 children ages 0-18 in 2016. A total of 125,984 tests were conducted on children younger than age 6, which represents an 8.6% increase in testing for this age group compared to the average during calendar 2010 through 2015. Of the 118,619 children tested in 2016, 355 children (or 0.3% of those tested) younger than age 6 were identified as having a blood lead level of greater than 10 $\mu\text{g}/\text{dL}$, down from 377 in 2015. Of the 355 cases in 2016, 270 were new cases. An additional 1,729 children had blood lead levels between 5 and 9 $\mu\text{g}/\text{dL}$, down from 1,789 in 2015. Of those 1,729 cases in 2016, 1,316 were new cases. According to MDE, much of the decline in blood lead levels in recent years is the result of implementation and enforcement of Maryland’s lead law.

State Revenues: Tax credits may be claimed beginning in tax year 2019. As a result, general fund revenues will decrease by \$500,000 annually beginning in fiscal 2020. This estimate assumes that DHCD awards the maximum authorized amount of credits in each fiscal year and 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 TTF and HEIF revenues.

The criminal penalty provision is not expected to significantly affect State revenues.

State Expenditures: General fund expenditures increase by \$237,100 in fiscal 2020, due to implementation costs at DHCD and the Comptroller's Office, as described below.

Administrative Expenses

DHCD must review applications; evaluate and certify projects; and oversee the program. The Department of Legislative Services estimates that general fund expenditures will increase by \$182,100 in fiscal 2020 as a result of hiring one program administrator, one support staff, and one part-time inspector. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Positions	2.2
Salaries and Fringe Benefits	\$166,651
Operating Expenses	<u>15,405</u>
DHCD Expenditures	\$182,056
Comptroller's Expenditures	<u>55,000</u>
Total FY 2020 State Expenditures	\$237,056

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$55,000 in fiscal 2020 to add the tax credit to personal income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Penalty Provision

The criminal penalty provision is not expected to significantly affect State expenditures.

Additional Information

Prior Introductions: Similar legislation was introduced in the 2011, 2012, and 2013 sessions. HB 389 of 2013, HB 554 of 2012, and HB 527 of 2011 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Housing and Community Development; Maryland Department of the Environment; Centers for Disease Control and Prevention; Department of Legislative Services

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