

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1105
Ways and Means

(Delegate Shetty, *et al.*)

Income Tax - Credit for Residential Composting and Pickup Services

This bill creates a nonrefundable credit against the State income tax for up to \$200 of the qualified composting expenses incurred by an individual. Eligible expenses include the cost of composting equipment intended for use in an individual's residence and the expenses paid for residential composting pick up services. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease significantly beginning in FY 2021 due to credits claimed against the personal income tax. General fund expenditures may increase beginning in FY 2021 due to administrative costs at the Comptroller's Office.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: No similar State tax credit exists.

Background:

Composting

Composting is the biological decomposition of organic matter under controlled thermophilic aerobic conditions (growing best in a warm environment). Regulations

establish the permitting requirements for constructing and operating composting facilities in the State. In 2016, the Maryland Department of the Environment (MDE) created a general permit for composting and has begun to issue permits for such facilities. The general permit allows for an easier and more streamlined application and permit process to promote composting in the State.

According to MDE's website, as of 2020, 18 composting facilities are operational, and three additional permits have been issued for planned facilities. Of the 18 facilities, 13 compost yard waste, 3 compost both food and yard waste, 1 composts food waste and manure, and 1 composts hay, straw, and manure. MDE advises that in 2018, approximately 161,000 tons of food scraps were composted out of an estimated 921,000 tons of food generated in Maryland.

Yard Waste, Food Residuals, and Other Organic Materials Diversion and Infrastructure Study Group

Chapter 384 of 2017 required MDE to study and make recommendations regarding the diversion of yard waste, food residuals, and other organic materials from refuse disposal facilities in the State, including ways to encourage investment in infrastructure and to expand capacity for yard waste, food residuals, and other organic materials diversion. MDE published the required report in July 2019. The report indicates that in 2016, organics were the second largest component of waste disposed of in Maryland (next to paper), accounting for approximately 24% of the municipal solid waste disposed. Eighteen percent of the waste disposed of, or an estimated 713,257 tons, was food scraps. The study group worked with the Johns Hopkins Center for a Livable Future to determine the number and locations of "large food scraps generators," which was defined as a generator that produces 52 tons of food scraps annually. According to the Center for a Livable Future, there are approximately 3,961 large food scrap generators located across Maryland.

Kentucky Recycling and Composting Equipment Tax Credit

Kentucky provides a tax credit for 50% of the installed cost of recycling and composting equipment incurred by an individual or business. The tax credit is projected to decrease revenues by \$11.3 million in fiscal 2020.

State Revenues: Tax credits may be claimed beginning in tax year 2020. As a result, general fund revenues will decrease beginning in fiscal 2021 due to credits claimed against the personal income tax. However, the amount of the revenue loss cannot be reliably estimated and depends on the type and amount of eligible expenses claimed by individuals.

Based on national data on the percentage of households that compost, the Comptroller's Office estimates that the revenue loss will be significant.

State Expenditures: The Comptroller's Office advises that it will incur additional costs beginning in fiscal 2021 as a result of hiring additional revenue examiners to verify tax credit claims and incurring programming expenses in order to add the tax credit to the personal income tax form.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Kentucky Office of State Budget Director; Maryland Department of the Environment; Comptroller's Office; Department of Legislative Services

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mm/jrb

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