

Department of Legislative Services  
Maryland General Assembly  
2020 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1364  
Ways and Means

(Delegate Brooks, *et al.*)

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Income Tax - Credit for Energy Efficiency Upgrades - Passive Houses

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This bill creates a nonrefundable State income tax credit for the eligible costs incurred for an energy efficiency upgrade to a specified residential building that uses components certified by the Passive House Institute and brings the building into compliance with criteria established by the institute. The owner of a single-family residence or a multi-family rental property can claim a tax credit equal to 10% of the total eligible costs incurred during the tax year, not to exceed \$2,000.

The Maryland Energy Administration (MEA) must approve tax credit applications and, in consultation with the Comptroller, adopt regulations implementing the bill. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

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Fiscal Summary

**State Effect:** State revenues will decrease beginning in FY 2021 due to credits claimed against the income tax. General fund expenditures increase by \$56,000 in FY 2021 due to one-time implementation costs at the Comptroller's Office.

**Local Effect:** Local highway user revenues decrease to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

**Small Business Effect:** Minimal.

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Analysis

**Bill Summary:** An energy efficiency upgrade is an improvement made on or after July 1, 2020, to a component of the duct system or envelope of a building that meets or exceeds the minimum R-value of the component, as established by the current version of

the International Energy Conservation Code. An energy efficiency upgrade includes (1) additional insulation; (2) energy efficient windows and storm windows; (3) weather stripping and caulking; and (4) duct sealing and insulation.

**Current Law:** No exact State tax credit exists for these types of expenditures; however, numerous federal and State programs provide grants, loans, rebates, and/or tax credits for qualified energy efficiency expenditures. This includes the exemption from the State sales and use tax for machinery and equipment used to produce Energy Star windows and entry doors.

**State Revenues:** Tax credits may be claimed beginning with tax year 2020. Based on the requirements of the bill, the Comptroller's Office estimates that general fund revenues may decrease by \$8.7 million annually beginning in fiscal 2021. This estimate assumes that 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 Transportation Trust Fund and Higher Education Investment Fund revenues.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$56,000 in fiscal 2021 to add the tax credit to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

In addition, MEA may incur additional costs beginning in fiscal 2021 in order to administer the tax credit program. MEA did not respond to a request for information regarding the fiscal impact of the bill.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Department of Legislative Services

**Fiscal Note History:** First Reader - March 3, 2020  
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