

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 215

(Chair, Budget and Taxation Committee)(By Request -
 Departmental - Maryland Energy Administration)

Budget and Taxation

Ways and Means

Energy Storage Systems - Income Tax Credit and Grant Program

This departmental bill extends the energy storage system income tax credit for two additional tax years through tax year 2024. Beginning with fiscal 2025, the bill also establishes the energy storage system grant program within the Maryland Energy Administration (MEA). **The bill generally takes effect July 1, 2022.**

Fiscal Summary

State Effect: General fund revenues decrease by \$750,000 annually in FY 2024 and 2025 due to credits claimed against the income tax. General fund expenditures may increase by \$375,000 in FY 2025 and by \$750,000 annually beginning in FY 2026 due to appropriations for the grant program.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	\$0	(\$0.8)	(\$0.8)	\$0	\$0
GF Expenditure	\$0	\$0	\$0.4	\$0.8	\$0.8
Net Effect	\$0.0	(\$0.8)	(\$1.1)	(\$0.8)	(\$0.8)

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

Local Effect: Local highway user revenues decrease in FY 2024 and 2025 to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: MEA has determined that this bill has a minimal impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill).

Analysis

Energy Storage System Grant Program

MEA must administer the grant program and (1) adopt regulations implementing the bill; (2) establish program application procedures; and (3) award grants on a first-come, first-served basis.

Energy Storage System Grant Fund

The fund is a special, nonlapsing fund that consists of money appropriated in the State budget to the fund and any other money from any other source accepted for the benefit of the fund. Money expended from the fund may only be used to provide grants and pay for program administrative expenses.

Current Law: Chapter 389 of 2017 created a credit against the State income tax for the costs of installing an energy storage system. The value of the credit is equal to 30% of the installation costs, not to exceed \$5,000 for a residential system or \$150,000 for a commercial system. MEA may award a total of \$750,000 in credits in each tax year. The amount of the tax credit may not exceed the tax liability imposed in the year, and any unused credit amount may not be carried forward to any other tax year.

An energy storage system is a system used to store electrical energy, or mechanical, chemical, or thermal energy that was once electrical energy, for use as electrical energy at a later time or in a process that offsets electricity use at peak times. The tax credit can be claimed by a person who has either purchased or leased an energy storage system on a residential or commercial property.

The credit may be claimed in tax year 2018 through 2022 for qualified systems installed between January 1, 2018, and December 31, 2022.

Background: **Exhibit 1** shows the number of awards and total tax credits awarded since the inception of the program. In tax year 2019 and 2021, MEA issued the maximum \$750,000 in tax credits. The impacts of COVID-19 and supply chain constraints accounted for the lower amount awarded in tax year 2020.

Exhibit 1
Tax Credit Awards
Tax Year 2018-2021

<u>Tax Year</u>	<u>Awards</u>	<u>Total Tax Credits</u>
2018	63	\$224,419
2019	175	750,000
2020	121	559,496
2021	164	750,000
Total	523	\$2,283,915

Source: Maryland Energy Administration; Department of Legislative Services

Of the tax credits awarded in these years, 5 were issued for the installation of commercial systems and 518 were issued for the installation of residential systems. In tax year 2021, MEA initially reserved \$300,000 for taxpayers who purchased energy storage systems on residential property, \$300,000 for taxpayers who purchased systems on commercial property, and \$150,000 for taxpayers who leased systems for use on commercial property.

State Revenues: The bill extends the termination date of the energy storage system income tax credit to December 31, 2024, and converts the tax credit into a grant program after that date. As a result, general fund revenues will decrease by \$750,000 annually in fiscal 2024 and 2025 due to tax credits claimed against the income tax.

This estimate assumes that MEA awards the maximum authorized amount of credits in each tax 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 Transportation Trust Fund and Higher Education Investment Fund revenues.

MEA may award grants for energy storage systems installed beginning on January 1, 2025. General fund expenditures may increase beginning in fiscal 2025 due to appropriations to the fund established by the bill. The amount of the increase, if any, depends on the amount appropriated in each year. While the bill does not require or suggest a minimum appropriation amount, the Department of Legislative Services assumes that the program receives an appropriation of \$375,000 in fiscal 2025 and \$750,000 annually beginning in fiscal 2026.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland Energy Administration;
Department of Legislative Services

Fiscal Note History: First Reader - January 17, 2022
rh/jrb Third Reader - February 7, 2022
 Enrolled - April 18, 2022
 Revised - Amendment(s) - April 18, 2022

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Energy Storage Systems – Income Tax Credit and Grant Program

BILL NUMBER: SB 215

PREPARED BY: Landon Fahrig, Legislative Liaison

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

 X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

OR

 WILL HAVE A MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Energy Storage Tax Credit - Equity is not anticipated to have a meaningful impact on small businesses. Small businesses will remain eligible, in the manner they have been since TY20.