



**TO:** Members, House Ways & Means  
**FROM:** Mary Beth Tung – Director, MEA  
**SUBJECT:** HB 405 - Income Tax – Mechanical Insulation Installation Tax Credit  
**DATE:** February 8, 2022

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**MEA POSITION: Letter of Information**

House Bill 405 creates a new income tax credit administered by the Maryland Energy Administration (MEA) providing an incentive to install mechanical insulation in commercial and industrial properties. The bill requires additional staffing within MEA, creates certain administrative challenges, and may produce a free-ridership issue.

There is no dollar-amount limit on each individual tax credit certificate, meaning the amount of each credit could be quite large. The constraints proposed in the bill under subsection (f)(1) would not be calculated until after the MEA certificate is issued. This may lead to administrative inefficiencies.

The Mechanical Insulation Installation Tax Credit is available for “qualified expenses” in excess of \$10,000, up to 30% of costs, and up to an aggregate total of \$5 million for commercial and industrial projects. The credit is a fairly large percentage of total expenses (up to 30%), likely making it desirable.

Due to the expected magnitude of credits and volume of applicants, MEA anticipates that the annual cumulative credits will be at or near the aggregate limit of \$5 million, reducing General Fund revenues by that same amount. Due to the anticipated volume of applicants, MEA cannot absorb the administration of the new credit.

Lastly, the bill may create free-ridership. COMAR 09.15.05.01 incorporates by reference the 2018 International Mechanical Code, and these standards appear to already require certain levels of mechanical insulation. Therefore, this bill would incentivise to some degree that which is already mandated for new construction in Maryland.

MEA thanks the committee for its consideration of this information.