

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 978

(Senator Hester, *et al.*)

Budget and Taxation

Historic Revitalization Tax Credit - Transferability, Funding, and Extension
(Historic Revitalization Tax Credit Improvement Act of 2020)

This bill (1) extends the termination date of the Historic Revitalization Tax Credit Program through fiscal 2028; (2) requires the Governor to provide a minimum appropriation amount for the commercial credit program in fiscal 2022 through 2025; (3) increases the maximum value of the commercial credit under certain circumstances; and (4) allows, subject to specified requirements, the commercial credit to be transferable. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease by \$1.0 million in FY 2025 due to residential credits claimed against the income tax. General fund expenditures increase by \$6.0 million in FY 2022 and by \$30.0 million in FY 2025 due to commercial tax credit appropriations. Special fund revenues and expenditures increase by \$0.4 million in FY 2025 reflecting administrative fees and expenditures for the Maryland Historical Trust (MHT).

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	\$0	\$0	\$0	\$0	(\$1.0)
SF Revenue	\$0	\$0	\$0	\$0	\$0.4
GF Expenditure	\$0	\$6.0	\$11.0	\$16.0	\$30.0
SF Expenditure	\$0	\$0	\$0	\$0	\$0.4
Net Effect	\$0.0	(\$6.0)	(\$11.0)	(\$16.0)	(\$31.0)

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

Local Effect: Local highway user revenues decrease as a result of any credits claimed against the corporate income tax. Local expenditures are not affected.

Small Business Effect: Meaningful. Any small business that benefits from the tax credit will be positively impacted by the extension and additional program funding.

Analysis

Bill Summary: The program's termination date is extended through fiscal 2028 for commercial, small commercial, and owner-occupied residential property rehabilitations. MHT can award credits through June 30, 2028.

The Governor must provide an appropriation to the reserve fund for commercial projects that is at least (1) \$15.0 million in fiscal 2022; (2) \$20.0 million in fiscal 2023; (3) \$25.0 million in fiscal 2024; and (4) \$30.0 million in fiscal 2025.

The maximum value of the commercial tax credit is increased to up to \$5 million for any fiscal year in which the Governor includes at least \$30.0 million in commercial tax credit program funding.

Current Law/Background: The Historic Revitalization Tax Credit Program provides tax credits for commercial, small commercial, and owner-occupied residential property rehabilitations. The value of the refundable credit is based on the type of rehabilitation undertaken and up to a percentage of qualified rehabilitation expenditures, as follows:

- 20% for the rehabilitation of a single-family, owner-occupied residence, or a small commercial project; and
- 20% for the commercial rehabilitation of a certified historic structure or 25% if certain energy efficiency standards are met.

The value of the tax credit may not exceed (1) for a commercial rehabilitation (any building that is not a single-family, owner-occupied residence, or small commercial project), \$3 million or the maximum amount specified under the initial credit certificate or (2) for all other rehabilitations, \$50,000. These maximum values are increased if a project meets certain requirements and is located within a federal opportunity zone.

Applying for the credit is a three-part process administered by MHT within the Maryland Department of Planning.

Commercial Program

The commercial program includes the rehabilitation of certified historic structures and is the largest component of the program. The commercial credit is a budgeted tax credit and the Governor must appropriate funds to the program annually through fiscal 2024. The Governor is not required to appropriate an amount to the reserve fund in each year. MHT awards credits through a competitive process, with the amount awarded each year generally limited to the amount appropriated to the program.

Small Commercial Project Program

Chapter 601 of 2014 established credit eligibility for certain small commercial projects. Applicants must apply to MHT in order to qualify and receive an initial credit certificate. MHT may award a maximum of \$4.0 million in credits between January 1, 2015, and June 30, 2024.

State Fiscal Effect: The bill extends the termination date of the program to June 30, 2028, and mandates minimum funding to the reserve fund for commercial projects in fiscal 2022 through 2025. As a result, the net effect on State finances will be a decrease of \$6.0 million in fiscal 2022. **Appendix 1** details the fiscal impact of the bill in fiscal 2021 through 2025.

Commercial Credit Reserve Fund

The bill requires the Governor to appropriate minimum amounts to the reserve fund in fiscal 2022 through 2025. The Governor's proposed fiscal 2021 budget includes \$9.0 million in funding for commercial credits. Based on the fiscal 2021 appropriation, general fund expenditures will increase by \$6.0 million in fiscal 2022 and by \$30.0 million in fiscal 2025, as shown in Appendix 1.

Small Commercial Projects

The bill extends the authority for MHT to issue small commercial project credits but does not alter the total amount of credits that MHT can award. Accordingly, there will be no fiscal impact beyond that provided under current law.

Residential Credits

The bill extends the residential tax credit program beginning with the second half of calendar 2024. Based on the history of the existing program, it is estimated that extending the program will decrease revenues by \$1.0 million in fiscal 2025.

Administrative Fees

The bill extends MHT's authority to assess fees to pay the cost of administering the State and federal historic tax credits. Appendix 1 shows MHT's projected fees and administrative expenses in fiscal 2025.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 862 (Delegate Smith, *et al.*) - Ways and Means.

Information Source(s): Maryland Department of Planning; Department of Legislative Services

Fiscal Note History: First Reader - February 13, 2020
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Appendix 1 – Fiscal Impact of Legislation Fiscal 2021-2025

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Expenditures					
General Fund Expenditures					
Reserve Fund Appropriation	\$0	\$6,000,000	\$11,000,000	\$16,000,000	\$30,000,000
Special Fund Expenditures					
MHT Administrative Expenses	0	0	0	0	350,000
Total Expenditures	\$0	\$6,000,000	\$11,000,000	\$16,000,000	\$30,350,000
Revenues					
General Fund Revenues					
Residential Credits	\$0	\$0	\$0	\$0	(\$1,000,000)
Special Fund Revenues					
MHT Certification Fees	0	0	0	0	350,000
Total Revenues	\$0	\$0	\$0	\$0	(\$650,000)
Net Effect	\$0	(\$6,000,000)	(\$11,000,000)	(\$16,000,000)	(\$31,000,000)

MHT: Maryland Historical Trust