

Department of Legislative Services  
Maryland General Assembly  
2021 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1042 (Delegate Rosenberg)  
Ways and Means

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**Baltimore City – Property Tax Credit – Newly Constructed and Substantially  
Rehabilitated Dwellings**

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This bill authorizes Baltimore City to grant a property tax credit for a newly constructed dwelling or substantially rehabilitated dwelling that is owned by a homeowner and reassessed at a higher value since the last reassessment. Baltimore City may provide for (1) additional eligibility criteria for the tax credit; (2) procedures for applying for the tax credit; and (3) any other provision necessary to carry out the tax credit. **The bill takes effect June 1, 2021, and applies to taxable years beginning after June 30, 2021.**

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Baltimore City property tax revenues decrease by approximately \$2.0 million in FY 2022 and by approximately \$8.0 million in FY 2026. City expenditures are not directly affected.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** A newly constructed dwelling is a dwelling that has not been previously occupied since its construction and for which the building permit for construction was issued on or after July 1, 2021. A substantially rehabilitated dwelling is a dwelling that, on or after July 1, 2021, has undergone substantial repairs, replacements, or improvements.

The amount of the property tax credit is equal to the amount of city property tax imposed on the increased value of the property that is due to the improvements made to the property, multiplied by the following percentage for the year following the first reassessment after the improvements are made:

- 100% for the first taxable year;
- 90% for the second taxable year;
- 80% for the third taxable year;
- 70% for the fourth taxable year;
- 60% for the fifth taxable year;
- 50% for the sixth taxable year;
- 40% for the seventh taxable year;
- 30% for the eighth taxable year;
- 20% for the ninth taxable year;
- 10% for the tenth taxable year; and
- 0% for each taxable year thereafter.

**Current Law:** Chapter 616 of 1994 authorized Baltimore City to grant a property tax credit for newly constructed dwellings or first purchased dwellings owned by qualified owners. The credit equaled 50% of the property tax amount in the first taxable year and decreased by 10 percentage points each year until it expired after the fifth year. The property tax credit was subsequently amended in 2002 to exclude eligibility for first purchased dwellings. Legislation establishing the property tax credit included a termination date, which was extended multiple times by the General Assembly. The property tax credit expired on June 30, 2019.

At the 2020 session, the General Assembly approved legislation (Chapter 509) that reauthorized the property tax credit for newly constructed dwellings through June 30, 2025. The legislation also altered eligibility requirements and the calculation of the property tax credit amount.

An eligible dwelling is defined as residential real property that is a newly constructed dwelling or a substantially rehabilitated dwelling. A major building component is a component, at least 50% of which is replaced, that (1) is significant to the dwelling and its use; (2) is normally expected to last the useful life of the dwelling; and (3) is not minor or cosmetic. A major building component includes roof structures; wall or floor structures; foundations; or plumbing, central heating and air conditioning, or electrical systems.

A substantially rehabilitated dwelling is defined as residential real property that, on or after July 1, 2020, has undergone repairs, replacements, or improvements (1) of two or more

major building components; (2) that comply with local laws and regulations; and (3) for which the direct construction costs incurred by the owner exceed \$6,500 or, after the completion of the repairs, replacements, or improvements, 30% of the property's assessed value in the taxable year. A substantially rehabilitated dwelling does not include a specified rehabilitated vacant dwelling.

The amount of the property tax credit varies depending on the assessed value of the dwelling and the property tax credit phases out after five years.

**Local Fiscal Effect:** The bill establishes a 10-year property tax credit for newly constructed or substantially rehabilitated dwellings, with a 100% credit in the first year and decreasing by 10 percentage points each year. Baltimore City estimates that the expanded property tax credit proposed by the bill will reduce city property tax revenues by approximately \$2.0 million in fiscal 2022 and by \$8.0 million in fiscal 2026. The estimate is based on the historical usage of the property tax credit in terms of the number of credits issued and the value of credits issued, assessed property values, and the increased amounts of the tax credits proposed by the bill. However, the actual revenue decrease depends on the number of newly constructed or rehabilitated dwellings that are eligible for the tax credit during each fiscal year.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Baltimore City; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 22, 2021  
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