HB 1051

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 1051 (Delegate Hixson)
Ways and Means

Certified Heritage Structure Rehabilitation Credit - Reciprocity with Other States

This bill authorizes a business entity or individual to claim an income tax credit for qualified rehabilitation expenses incurred for rehabilitating a certified historic structure in another state if that state has a reciprocal arrangement with Maryland.

The bill takes effect July 1, 1999 and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: Indeterminate effect on general and special fund revenues. No effect on expenditures.

Local Effect: Indeterminate effect on revenues. No effect on expenditures.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: Currently, there are eight states, including Virginia and North Carolina, that offer a tax credit for historic rehabilitation expenses. According to the Maryland Historic Trust, there are about an equal number of historic buildings in Maryland, Virginia, and North Carolina, as presented in the table below. Although the level of rehabilitation activity in Virginia and North Carolina compared to Maryland cannot be reliably estimated at this time, the number of historic buildings could serve as an indication of the potential level of activity.

State	Number of Pre-1939 Buildings	Number of Buildings on the National Registry
Maryland	474,000	38,700
Virginia	482,000	35,200
North Carolina	494,000	31,300

Virginia recently enacted legislation to authorize reciprocity with other states for their tax credit program; thus, passage of this bill would allow a business or individual to claim a Maryland tax credit for expenses incurred in Virginia, and vice versa. The amount of the credit in Virginia is currently 20% of qualified rehabilitation expenses, however, the credit will increase to 25% as of January 2000. The credit amount in Maryland is currently 25%.

In 1997, 27 taxpayers claimed a total of $82,290 in credits in Maryland. At that time, the amount of the credit allowed was 10%. Based on the 1997 data and applying the current credit percentage of 25%, at least $205,700 in credits will be claimed on the 1999 return under current law. The total credits claimed for rehabilitation expenses in 1997 could potentially be higher because not all taxpayers indicate the type of credit claimed on their tax returns. To illustrate this point, about $1.5 million was taken as a subtraction under the Historic Preservation subtraction modification in 1991 and 1992, respectively, representing $7.5 million in qualified rehabilitation expenditures in each year. Assuming that rehabilitation activities have not decreased significantly from 1991 to 1999, program costs for 1999 could be as much as $1.9 million.

Presumably, comparable credits could be claimed against Maryland and Virginia taxes as a result of reciprocity, thereby leaving revenues unchanged for both states. At the time of writing, Virginia had no estimate of the cost of their reciprocity legislation. The actual impact on Maryland, however, will depend on the relative level of rehabilitation activity that occurs in the reciprocal state(s) and the relative amount of the credit that is claimed against Maryland taxes.

If the credit is claimed against the corporate income tax, special fund revenues to the Transportation Trust Fund (TTF) would be impacted since about 25% of corporate tax revenues are distributed to the TTF.

Local Revenues: Local revenues would be impacted for those credits claimed against the corporate income tax since a portion of the TTF is distributed to local governments.

Information Source(s): Maryland Historic Trust, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

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