

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 987 (Delegate Rawlings. *et al.*)

Ways and Means

Reservoir Hill Redevelopment Tax Credits

This bill provides State income tax and Baltimore City property tax credits for property that is rehabilitated in the Reservoir Hill area of Baltimore City.

The bill is effective July 1, 2000. The income tax credit is applicable for taxable years after December 31, 2000, and the property tax credit is applicable for all taxable years after July 1, 2001.

Fiscal Summary

State Effect: General fund and/or special fund revenues could decrease by a total of \$6 million over a nine-year period. No effect on expenditures.

Local Effect: Decrease in Baltimore City property tax revenues. Potential loss in Baltimore City's share of the State's distribution of Transportation Trust Fund revenues of approximately \$60,000 annually during the years that the income tax credit is claimed.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Income Tax Credit:

An individual or corporation may claim a State income tax credit for 75% of the cost of rehabilitating real property located in the Reservoir Hill area of Baltimore City. In each of calendar 2001, 2002, and 2003, the aggregate tax credit available is \$2 million. Reservoir Hill, H.O.P.E., Inc. will assign the aggregate credit to real property in the area which is in need of rehabilitation. If the aggregate is not fully assigned in any calendar year, the following calendar year shall be increased by the amount not assigned. In 2004 and beyond, no new credits are available. However, unassigned credits can be carried forward from an earlier year. If the individual or corporation's tax credit exceeds the State income tax liability for that year, the excess may be applied against succeeding taxable years until the full amount is used or the fifth taxable year expires.

Property Tax Credit:

Baltimore City must grant a property tax credit on real property that has been rehabilitated in the Reservoir Hill area. The credit equals 100% of the city property tax for any year during which the property is being rehabilitated, not exceeding three years. After rehabilitation, the credit equals 100% of the tax imposed on the increase in value of the property due to the improvements for the first two years after the rehabilitation is complete. The credit decreases by 20% annually thereafter until it expires in the sixth year after the rehabilitation is complete.

Current Law: There is no State income or property tax credit specifically for property rehabilitated in the Reservoir Hill area of Baltimore City. However, the city does have the ability to grant a property tax credit for property owned by a homeowner that has been substantially improved since the last reassessment and is reassessed at a higher value. The credit equals 100% of the tax imposed on the increase in value of the property due to the improvements for the first two years after the rehabilitation is complete. The credit decreases by 20% annually thereafter until it expires in the sixth year.

Background: There is currently at least one project underway in the Reservoir Hill area, a rehabilitation of the Riveria Apartments, with project investments of approximately \$8.1 million.

State Revenues: General fund and/or special fund revenues could decrease by a total of \$6 million over an nine-year period. The income tax credit is up to \$2 million per year from

calendar 2001 through 2003. If the full \$2 million is not assigned in that year, it may be used in the succeeding year. If the individual or corporation's tax liability is less than the tax credit, the difference may be carried forward for a maximum of five years. The decrease in State income tax revenues can span a nine-year period (maximum of four years for the credit and an additional five years to carry forward any excess).

Credit taken on individual income tax returns result in a reduction of general fund revenues. Seventy-five percent of the credits taken on corporate income tax returns result in a general fund reduction and the remaining 25% result in a reduction in Transportation Trust Fund (TTF) revenues because of the distribution of corporate income tax revenue to the TTF. At this time, the number of individual income tax credits versus the number of corporate income tax credits that will be claimed cannot be reliably estimated. For example, if the entire income tax credit were provided to the corporation rehabilitating the Riveria Apartments, the calendar 2001 income tax credit would equal \$2 million. Of the credit, \$1.5 million would be a decrease in general fund revenues and \$500,000 would be a decrease in TTF revenues.

Local Revenues: As the property tax credit is mandatory, Baltimore City property tax revenues could decrease minimally. The actual decrease in revenues will depend on the number of properties rehabilitated in the Reservoir Hill area and the increase in assessment as a result of the rehabilitation, but it is assumed to be minimal in relation to total property tax revenues. As an example, the rehabilitation of the Riveria Apartments would be eligible for the property tax credit. The credit would be approximately \$50,000 in fiscal 2001 (100% during the rehabilitation period), would decrease to approximately \$30,000 in fiscal 2002 and 2003 (100% of the increase in the tax related to the increase in assessment due to the rehabilitation), and would decrease 20% per year for the next three fiscal years.

If the income tax credit were claimed by a corporation(s), Baltimore City's share of the State's distribution of Transportation Trust Fund revenues could potentially decrease by approximately \$60,000 annually during the years that the income tax credit is claimed. Approximately 30% of TTF revenues are distributed to local governments in highway user revenues. Baltimore City receives approximately 40% of the local distributions. In the example of the Reservoir Apartments, the corporate income tax credit would be \$2 million in fiscal 2001 which would result in a decrease to the TTF of \$500,000. The decrease in local highway user revenues would be \$150,000 (30% of total decrease) and the decrease for Baltimore City would be \$60,000 (40% of the local decrease).

Small Business Effect: A State income tax credit and city property tax credit could have a meaningful impact on small businesses that rehabilitate property in the Reservoir Hill area of Baltimore City.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Comptroller of the Treasury, Baltimore City, Department of Legislative Services

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