

# SENATE BILL 967

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CF 8lr3289

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By: **Senators Ferguson, Eckardt, Madaleno, Middleton, and Young**

Introduced and read first time: February 5, 2018

Assigned to: Budget and Taxation

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## A BILL ENTITLED

1 AN ACT concerning

2 **Heritage Structure Rehabilitation Tax Credit – Commercial Rehabilitations –**  
3 **Transferability and Affordable Housing**

4 FOR the purpose of making the State income tax credit under the heritage structure  
5 rehabilitation tax credit program transferable and refundable under certain  
6 circumstances; authorizing a certain additional tax credit under the program for  
7 certain commercial rehabilitations that qualify as affordable housing; repealing a  
8 requirement that the rehabilitation of certain structures be treated as a single  
9 commercial rehabilitation under the program; requiring the Director of the  
10 Maryland Historical Trust, in consultation with the Smart Growth Subcabinet, to  
11 adopt certain regulations; providing for the application of this Act; defining a certain  
12 term; and generally relating to the heritage structure rehabilitation tax credit  
13 program.

14 BY repealing and reenacting, with amendments,  
15 Article – State Finance and Procurement  
16 Section 5A-303(a) through (c)  
17 Annotated Code of Maryland  
18 (2015 Replacement Volume and 2017 Supplement)

19 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,  
20 That the Laws of Maryland read as follows:

21 **Article – State Finance and Procurement**

22 5A-303.

23 (a) (1) In this section the following words have the meanings indicated.

24 (2) **“AFFORDABLE HOUSING” MEANS A PROJECT OR UNDERTAKING**

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EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 THAT IS ELIGIBLE FOR AN ALLOCATION OF FEDERAL LOW-INCOME HOUSING TAX  
2 CREDITS BY THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT IN  
3 ACCORDANCE WITH THE MOST RECENT STATE ALLOCATION PLAN.

4 **[(2)] (3)** “Business entity” means:

5 (i) a person conducting or operating a trade or business in the State;  
6 or

7 (ii) an organization operating in Maryland that is exempt from  
8 taxation under § 501(c)(3) of the Internal Revenue Code.

9 **[(3)] (4)** “Certified heritage area” has the meaning stated in § 13–1101 of  
10 the Financial Institutions Article.

11 **[(4)] (5)** (i) “Certified historic structure” means a structure that is  
12 located in the State and is:

13 1. listed in the National Register of Historic Places;

14 2. designated as a historic property under local law and  
15 determined by the Director to be eligible for listing on the National Register of Historic  
16 Places;

17 3. A. located in a historic district listed on the National  
18 Register of Historic Places or in a local historic district that the Director determines is  
19 eligible for listing on the National Register of Historic Places; and

20 B. certified by the Director as contributing to the significance  
21 of the district; or

22 4. located in a certified heritage area and certified by the  
23 Maryland Heritage Areas Authority as contributing to the significance of the certified  
24 heritage area.

25 (ii) “Certified historic structure” does not include a structure that is  
26 owned by the State, a political subdivision of the State, or the federal government.

27 **[(5)] (6)** “Certified rehabilitation” means a completed rehabilitation of a  
28 certified historic structure that the Director certifies is a substantial rehabilitation in  
29 conformance with the rehabilitation standards of the United States Secretary of the  
30 Interior.

31 **[(6)] (7)** (i) “Commercial rehabilitation” means a rehabilitation of a  
32 structure other than a single-family, owner-occupied residence.

1 (ii) "Commercial rehabilitation" does not include a small commercial  
2 project.

3 [ (7) ] (8) "Director" means the Director of the Maryland Historical Trust.

8 [9)] (10) “High performance building” means a building that:

9 (i) meets or exceeds the current version of the U.S. Green Building  
10 Council's LEED (Leadership in Energy and Environmental Design) green building rating  
11 system gold rating; or

12 (ii) achieves at least a comparable numeric rating according to a  
13 nationally recognized, accepted, and appropriate numeric sustainable development rating  
14 system, guideline, or standard approved by the Secretaries of Budget and Management and  
15 General Services under § 3–602.1 of this article.

16                           [(10)] (11) (i)    “Historic property” means a district, site, building,  
17 structure, monument, or object significant to:

18 1. the prehistory or history of the State; or

21 (ii) "Historic property" includes related artifacts, records, and  
22 remains.

23                   **[(11)] (12)** “Local historic district” means a district that the governing body  
24 of a county or municipal corporation, or the Mayor and City Council of Baltimore, has  
25 designated under local law as historic.

27 (i) listed on the National Register of Historic Places; or

28 (ii) located in a historic district listed on the National Register of  
29 Historic Places and certified by the Director as contributing to the significance of the  
30 district.

[(14)] (15) “Qualified rehabilitation expenditure” means any amount that:

(i) is properly chargeable to a capital account;

(ii) is expended in the rehabilitation of a structure that by the end of  
in which the certified rehabilitation is completed is a certified historic

(iii) is expended in compliance with a plan of proposed rehabilitation approved by the Director; and

(iv) is not funded, financed, or otherwise reimbursed by any:

1. State or local grant;

2. a grant made from the proceeds of tax-exempt bonds issued by a subdivision of the State, or an instrumentality of the State or of a political subdivision of the State;

3. State tax credit other than the tax credit under this

4. other financial assistance from the State or a political  
other than a loan that must be repaid at an interest rate that is  
rate on general obligation bonds issued by the State at the most  
the time the loan is made.

19                   **[(15)] (16)** (i)    “Single-family, owner-occupied residence” means a  
20 structure or a portion of a structure occupied by the owner and the owner’s immediate  
21 family as their primary or secondary residence.

(ii) "Single-family, owner-occupied residence" includes:

1. a residential unit in a cooperative project owned by or  
housing corporation, as defined in § 5-6B-01 of the Corporations  
and leased for exclusive occupancy to, and occupied by, a member  
the member's immediate family under a proprietary lease; or

2. a small commercial project.

28                   [(16)] (17) (i)    “Small commercial project” means a rehabilitation of a  
29 structure primarily used for commercial, income-producing purposes if the qualified  
30 rehabilitation expenditures do not exceed \$500,000.

(iii) "Small commercial project" does not include a structure that is used solely for residential purposes.

3                           [(17)] (18) "Smart Growth Subcabinet" means the Smart Growth  
4 Subcabinet established under Title 9, Subtitle 14 of the State Government Article.

5                           [(18)] (19) “State unit” has the meaning stated in § 11–101 of the State  
6 Government Article.

7                   **[(19)] (20)** “Substantial rehabilitation” means rehabilitation of a structure  
8 for which the qualified rehabilitation expenditures, during the 24-month period selected  
9 by the individual or business entity ending with or within the taxable year, exceed:

10 (i) for single-family, owner-occupied residential property, \$5,000;  
11 or

12 (ii) for all other property, the greater of:

13 1. the adjusted basis of the structure; or

14 2. \$25,000.

17 (i) establish procedures and standards for certifying historic  
18 structures and rehabilitations under this section;

19 (ii) for commercial rehabilitations, establish an application process  
20 for the award of initial credit certificates for heritage structure rehabilitation tax credits  
21 consistent with the requirements of this subsection;

22 (iii) for commercial rehabilitations, establish criteria, consistent with  
23 the requirements of this subsection, for evaluating, comparing, and rating plans of proposed  
24 rehabilitation that have been determined by the Director to conform with the rehabilitation  
25 standards of the United States Secretary of the Interior;

26 (iv) for commercial rehabilitations, establish a competitive award  
27 process for the award of initial credit certificates for heritage structure rehabilitation tax  
28 credits that favors the award of tax credits for rehabilitation projects that:

## 1 resources and incentives;

3. are located in areas where the political subdivision has implemented regulatory streamlining or other development incentives that foster redevelopment and revitalization in priority funding areas, as defined in Title 5, Subtitle 7B of this article, and the appropriate local governing body or the planning board or commission, if designated by the local governing body, has certified to the Smart Growth Subcabinet those regulatory streamlining or other development incentives; and

4. include affordable and workforce housing options;

9 (v) for commercial rehabilitations, establish procedures to announce  
10 to the public the selection of a rehabilitation project for an award of an initial credit  
11 certificate not later than 60 days after the selection is made;

(vi) for commercial rehabilitations, determine whether the certified rehabilitation is a high performance building **OR QUALIFIES AS AFFORDABLE HOUSING;**

14 (vii) for commercial rehabilitations, establish a required external  
15 marker or, at a minimum, an internal marker for the rehabilitation project that identifies  
16 that the rehabilitation was funded by heritage structure rehabilitation tax credits;

(viii) as provided in paragraph (7) of this subsection, charge reasonable fees to certify historic structures and rehabilitations under this subtitle;

19 (ix) for commercial rehabilitations, require documentation that the  
20 applicant has ownership or site control of the structure in order to demonstrate the ability  
21 to meet the requirement to begin work as required under subsection (c)(3)(i)1 of this section;

22 (x) for commercial rehabilitations, provide a time limit for approval  
23 of the additional tax credit for high performance buildings **OR AFFORDABLE HOUSING**  
24 provided for in subsection (c)(1)(ii) of this section: [and]

25 (XI) FOR COMMERCIAL REHABILITATIONS, ESTABLISH  
26 PROCEDURES FOR THE TRANSFER OF THE TAX CREDIT UNDER SUBSECTION (C)(6)  
27 OF THIS SECTION; AND

28 [xi)] (xii) for small commercial projects:

(2) The Director may not certify that a rehabilitation is a certified rehabilitation eligible for a tax credit provided under this section unless the individual or business entity seeking certification states under oath the amount of the individual's or business entity's qualified rehabilitation expenditures.

12 (ii) A small commercial project is subject to the credit recapture  
13 provision in subsection (f) of this section.

14 (5) (i) For commercial rehabilitations, the Director may not accept an  
15 application for approval of plans of proposed rehabilitation if:

(6) Except as provided in subsection (d)(3)(iii) of this section, not more than 60% of the total credit amounts under initial credit certificates issued for any fiscal year may be issued for projects in a single county or Baltimore City.

30 1. a minimum fee for the second phase of the application  
31 process;

1 based on the greater of the estimated or final qualified rehabilitation expenditures for the  
2 rehabilitation.

3 (ii) The Director shall set the level of the fees so that the projected  
4 proceeds from the fees will cover the costs to the Trust of administering the credit under  
5 this section and the federal historic tax credit.

6 (iii) If a fee charged for a commercial rehabilitation is not received by  
7 the Trust within 90 days after the Trust sends notice to the applicant that the fee is due,  
8 the Trust may not:

9 1. issue an initial credit certificate for the commercial  
10 rehabilitation; or

11 2. accept an application for a commercial rehabilitation from  
12 the applicant during the 3 fiscal years following the fiscal year in which the fee was not  
13 received.

14 (iv) The proceeds from the fees shall be deposited in a special fund,  
15 to be used only for the purposes of paying the costs of administering the credit under this  
16 section and the federal historic tax credit.

17 (v) Any unused balance of the fund at the end of each fiscal year  
18 shall be transferred to the Reserve Fund established under subsection (d) of this section  
19 and shall increase the amount of the initial credit certificates that the Trust may issue for  
20 the following fiscal year.

21 (c) (1) (i) Except as otherwise provided in this section, for the taxable year  
22 in which a certified rehabilitation is completed, an individual or business entity may claim  
23 a tax credit in an amount equal to 20% of the individual's or business entity's qualified  
24 rehabilitation expenditures for the rehabilitation.

25 (ii) For a commercial rehabilitation, an individual or business entity  
26 may claim an additional tax credit in an amount equal to 5% of the individual's or business  
27 entity's qualified rehabilitation expenditures if the certified rehabilitation is a certified  
28 historic structure and:

29 1. IS a high performance building; OR

30 2. **QUALIFIES AS AFFORDABLE HOUSING.**

31 (2) (i) For any commercial rehabilitation, the State tax credit allowed  
32 under this section may not exceed the lesser of:

33 1. \$3,000,000; or

34 2. the maximum amount specified under the initial credit

1 certificate issued for the rehabilitation.

2 (ii) For a rehabilitation other than a commercial rehabilitation, the  
3 State tax credit allowed under this section may not exceed \$50,000.

4 (iii) For the purposes of the limitation under subparagraph (i) of this  
5 paragraph, the following shall be treated as a single commercial rehabilitation:

6 1. the phased rehabilitation of the same structure or  
7 property; OR

8 2. the separate rehabilitation of different components of the  
9 same structure or property]; or

10 3. the rehabilitation of multiple structures that are  
11 functionally related to serve an overall purpose].

12 (3) (i) Subject to subparagraph (ii) of this paragraph, the initial credit  
13 certificate for a proposed commercial rehabilitation shall expire and the credit under this  
14 section may not be claimed if:

15 1. within 18 months after the initial credit certificate was  
16 issued, the applicant has not notified the Trust, in writing, that the commercial  
17 rehabilitation has begun;

18 2. the commercial rehabilitation is not completed within 30  
19 months after the initial credit certificate was issued; or

20 3. the applicant does not submit to the Trust a request for  
21 final certification of the commercial rehabilitation within 12 months after:

22 A. the 30-month expiration date under subparagraph (i)2 of  
23 this paragraph; or

24 B. the date to which the Director postponed the expiration  
25 date under subparagraph (ii) of this paragraph.

26 (ii) For reasonable cause, the Director may postpone:

27 1. the 30-month expiration date under subparagraph (i)2 of  
28 this paragraph for an initial credit certificate for a commercial rehabilitation; or

29 2. if the commercial rehabilitation was completed prior to the  
30 expiration of the initial credit certificate, the deadline under subparagraph (i)3 of this  
31 paragraph for submission of a request for final certification.

32 (4) If the tax credit allowed under this section in any taxable year exceeds

1 the total tax otherwise payable by the business entity or the individual for that taxable  
2 year, the individual or business entity may claim a refund in the amount of the excess.

3 (5) The State credit allowed under this section may be allocated among the  
4 partners, members, or shareholders of an entity in any manner agreed to by those persons  
5 in writing.

6 (6) (I) IN ACCORDANCE WITH REGULATIONS ADOPTED BY THE  
7 DIRECTOR UNDER THIS SECTION, THE AMOUNT OF THE STATE CREDIT ALLOWED,  
8 BUT NOT USED, FOR COMMERCIAL REHABILITATIONS UNDER THIS SECTION MAY BE  
9 TRANSFERRED IN WHOLE OR IN PART TO ANY INDIVIDUAL OR BUSINESS ENTITY.

10 (II) 1. FOR THE TAXABLE YEAR OF ANY TRANSFER UNDER  
11 THIS PARAGRAPH, THE TRANSFeree UNDER SUBPARAGRAPH (I) OF THIS  
12 PARAGRAPH MAY APPLY THE TAX CREDIT AGAINST THE TOTAL TAX OTHERWISE  
13 PAYABLE BY THE TRANSFeree IN THAT TAXABLE YEAR.

14 2. IF THE TAX CREDIT EXCEEDS THE STATE INCOME TAX  
15 OF THE TRANSFeree IN ANY TAXABLE YEAR, THE TRANSFeree:

16 A. MAY CLAIM A REFUND IN THE AMOUNT OF THE  
17 EXCESS; OR

18 B. TRANSFER THE REMAINDER OF THE TAX CREDIT TO  
19 ANY INDIVIDUAL OR BUSINESS ENTITY.

20 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July  
21 1, 2018, and shall be applicable to all taxable years beginning after December 31, 2017.