Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 843 (Delegate Buckel)
Ways and Means

Property and Income Taxes – Credits for Construction and Purchase of Housing in Western Maryland

This bill creates a local property tax credit and a State income tax credit for newly constructed residential real property in Allegany, Garrett, and Washington counties. Allegany, Garrett, and Washington counties and municipalities in those counties must grant, by law, a property tax credit of up to $10,000 against the property tax imposed on an eligible dwelling that is newly constructed residential real property for up to five years if the dwelling meets specified requirements. The State must reimburse the local governments for 50% of the property tax credit as provided in the State budget. A developer of residential real property may apply to the Department of Housing and Community Development (DHCD) for a State income tax credit of $7,500 if the developer constructs more than 10 middle-income homes in Allegany, Garrett, or Washington counties. **The bill takes effect June 1, 2022, and is applicable for tax year 2022 and beyond for the income tax credit and for fiscal 2023 and beyond for the property tax credit.**

Fiscal Summary

State Effect: State revenues decrease due to credits claimed against the income tax beginning in FY 2023. General fund expenditures increase by $147,400 in FY 2023 due to administrative costs, with ongoing personnel costs, and increase further beginning in FY 2025 due to property tax reimbursements mandated by the bill.

Local Effect: Property tax revenues in Allegany, Garrett, and Washington counties and their municipalities decrease beginning in FY 2023. Local highway user revenues decrease to the extent income tax credits are claimed against the corporate income tax. Local expenditures may increase minimally to administer the program. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Bill Summary:

Property Tax Credit

An eligible dwelling is newly constructed residential real property that has not been previously occupied since its construction for which the building permit for construction was issued after May 31, 2022, and is occupied by the purchaser of the dwelling as the purchaser's principal residence. The eligible dwelling must be constructed or equipped with a sprinkler system, an on-site sewage disposal system, or fixed broadband Internet access service connectivity. The bill specifies the process for local governments to receive State reimbursements. Allegany, Garrett, and Washington counties or their municipalities that grant a property tax credit may establish regulations and procedures for the application and uniform processing of tax credit requests and any other provision necessary to carry out the property tax credit.

Income Tax Credit

A middle-income home is a residential real property for which the building permit for construction was issued in the same taxable year as a tax certificate is issued and has a purchase price of $130,000 to $250,000 that is paid by an individual that intends to occupy the residence as the individual's principal residence. DHCD, in consultation with the Comptroller, must adopt regulations to implement the income tax credit. The nonrefundable credit may be carried forward for five years. In accordance with regulations adopted by DHCD, any unused credits may be transferred to an individual or business entity.

Current Law: Allegany County or the City of Cumberland may grant, by law, a property tax credit against the county and municipal corporation tax imposed on property that is rehabilitated or newly constructed. The credit may not extend beyond the first 10 years after the rehabilitation or new construction is completed, and the credit may not exceed the initial valuation of the rehabilitation or new construction and the resulting phase-in of the valuation.

Washington County or a municipality in Washington County may grant, by law, a property tax credit against the county or municipal corporation property tax imposed on new construction or an improvement to existing property.

Department of Housing and Community Development

Among other responsibilities, DHCD provides financing for the economic development and maintenance of affordable housing and communities in Maryland. DHCD also provides funding for community revitalization projects. As introduced, the Governor's proposed fiscal 2023 capital budget includes a mixture of general obligation bonds, general funds, special funds, and federal funds for the following DHCD programs that provide assistance to homebuyers and those facilitating community revitalization in Maryland:

- Strategic Demolition Fund ($30.0 million);
- Neighborhood Business Development Program ($25.0 million);
- Baltimore Regional Neighborhood Initiative ($12.0 million);
- National Capital Strategic Economic Development Program ($7.0 million);
- Community Development Block Grant Program ($12.0 million);
- Seed Community Development Anchor Institution Fund ($10.0 million);
- Special Loan Programs ($10.4 million);
- Community Legacy Program ($8.0 million);
- Homeownership Programs ($42.0 million); and
- Housing and Building Energy Program ($15.8 million).

Partnership Rental Housing Program

The Partnership Rental Housing Program is intended to expand the supply of affordable housing for low-income households. Among other potential program participants, DHCD is authorized to provide financial assistance to political subdivisions or housing authorities to acquire, construct, reconstruct, renovate, or rehabilitate rental housing affordable to households of limited income. The program provides loans for the development of rental housing that will be occupied by households with incomes at or below 50% of the statewide median. Loan amounts are limited to the greater of $75,000 per unit or the actual cost of the project. Projects financed through the program typically involve a partnership between State and local governments.

Maryland Mortgage Program

The Maryland Mortgage Program (MMP), administered by DHCD, provides below-market, fixed-rate mortgages through private lending institutions to low- and moderate-income households. The program is financed through the sale of mortgage revenue bonds, targeted to first-time homebuyers, and includes eligibility limits on both household income and the cost of the home. MMP has annual income requirements limiting who can apply for a loan through the program. Income requirements vary by location and whether the home is in a "targeted area."

Low-income Housing Tax Credits

Among other things, the Tax Reform Act of 1986 created the federal low-income housing tax credit to encourage the private sector to invest in the construction and rehabilitation of housing for low- and moderate-income families. For-profit and nonprofit sponsors are eligible to apply for the tax credits, and the owner of a qualified low-income building must rent either 20% of the units to households with incomes of 50% or less of the area median income, or 40% of the units to households with incomes of 60% or less of the area median income. DHCD is the designated entity to allocate low-income housing tax credits in the State.

State Revenues: Income tax credits can be claimed beginning in tax year 2022. As a result, general fund revenues decrease from credits claimed against the personal income tax beginning in fiscal 2023. The amount of the State revenue loss depends on the number of developers that construct more than 10 middle-income homes in a taxable year in Allegany, Garrett, or Washington counties and receive tax credit certificates. State tax revenues decrease by up to $7,500 for each tax credit certificate issued. To the extent tax credits are claimed against the corporate income tax, a portion of tax credits claimed will decrease Transportation Trust Fund and Higher Education Investment Fund revenues.

State Expenditures: As provided in the budget, the State must reimburse local governments for one-half of the local revenue loss associated with the property tax credit established by the bill. General fund expenditures to reimburse local governments in Allegany, Garrett, and Washington counties may increase beginning in fiscal 2025.

Administrative Costs

Department of Housing and Community Development

DHCD has determined that two regular full-time positions are needed to implement the bill. However, the Department of Legislative Services advises that the scope of the program likely only warrants one additional position. Thus, general fund expenditures increase for DHCD by $97,412 in fiscal 2023, which accounts for a 30-day start-up delay from the bill's June 1, 2022 effective date. This estimate reflects the cost of hiring one program administrator to process and approve tax credit applications each year. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$89,804
Operating Expenses	7,608
Total FY 2023 State Expenditures	**$97,412**

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of $50,000 in fiscal 2023 to add the tax credit to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Local Revenues: Allegany, Garrett, and Washington county and/or municipal property tax revenues decrease beginning in fiscal 2023. The amount of the revenue decrease depends on the number of newly constructed dwellings in Allegany, Garrett, and Washington counties that are eligible for the property tax credit and the amount of the tax credit granted, which may not exceed $10,000. Garrett County estimates that property tax revenues may decrease by $300,000 annually, while Washington County expects only one credit of $10,000 to be issued a year. The State must reimburse local governments for 50% of the property tax revenue decrease.

Local highway user revenues decrease to the extent credits are claimed against the corporate income tax.

Local Expenditures: Local expenditures may increase minimally to administer the program. For example, Washington County estimates that expenditures increase by $3,000 in fiscal 2023 to administer the property tax credit.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 675 (Senators Edwards and Corderman) - Budget and Taxation.

Information Source(s): Allegany, Garrett, and Washington counties; Comptroller's Office; Department of Housing and Community Development; State Department of Assessments and Taxation; Department of Legislative Services

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