

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 946
Budget and Taxation

(Senator McCray)

Historic Revitalization Tax Credit - Alterations

This bill authorizes the Director of the Maryland Historical Trust (MHT) to accept applications for approval of a supplemental credit under the Maryland Historic Revitalization Tax Credit Program for commercial rehabilitations for which construction costs have increased due to inflation, subject to the availability of funds and existing per-project limitations on tax credit awards. The Director must give priority to the issuance of supplemental credit certificates over the issuance of new initial credit certificates. The bill also makes other changes relating to project eligibility, prioritization of tax credits for commercial rehabilitations, and the disposition of recaptured credits. **The bill takes effect July 1, 2026, and applies to tax credit certificates issued on or after July 1, 2026.**

Fiscal Summary

State Effect: General fund revenues decrease, and special fund revenues and expenditures increase, to the extent recaptured credits are diverted to the Historic Revitalization Tax Credit Reserve Fund for future issuance as required by the bill. General fund revenues may decrease further in any of FY 2027 through 2031 to the extent the bill's alterations to general eligibility requirements increase utilization of the homeowner credit. Overall State expenditures for the tax credit program are not otherwise expected to be materially affected, as discussed below.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: “Qualified rehabilitation expenditure” is expanded to include amounts that are funded, financed, or otherwise reimbursed by any other State or local financial assistance, such as a State or local grant or other State tax credit. The bill also expands, from 24 to 60 months, the period of time within which qualified rehabilitation expenditures must exceed a specified minimum amount in order for a rehabilitation project to qualify as a substantial rehabilitation eligible for certification under the program.

The competitive award process for commercial rehabilitations must favor projects that are likely to have a high impact on the economic development of a community and are located in a designated sustainable community; a transit-oriented development; an enterprise zone; a designated arts and entertainment district; or a designated Main Street Maryland community. Tax credit eligibility is expanded to include commercial rehabilitations for which a substantial part of the proposed rehabilitation work has begun, as long as the work has not been completed. For purposes of the per-project limitations on tax credit awards for commercial rehabilitations, each structure that is part of a phased rehabilitation of a campus with multiple structures is treated as a separate commercial rehabilitation.

Any amounts recaptured due to the performance of disqualifying work on or the disposal of a certified rehabilitation during the tax year in which the certified rehabilitation was completed (and in which such disqualifying work or disposal results in recapture of 100% of the credit) must be deposited in the Historic Revitalization Tax Credit Reserve Fund to be issued for the next fiscal year.

Current Law: The Maryland Historic Revitalization Tax Credit Program, administered by MHT within the Maryland Department of Planning, offers refundable and transferrable income and insurance premium tax credits for commercial, small commercial, and homeowner rehabilitations of certified historic structures. The Director of MHT may not issue initial credit certificates under the program after fiscal 2031.

Eligibility

Eligibility is limited to substantial rehabilitations; “substantial rehabilitation” is defined as the rehabilitation of a structure for which qualified rehabilitation expenditures during a selected 24-month period exceed \$5,000 for single-family, owner-occupied residential property or, for all other property, the greater of \$25,000 or the adjusted basis of the structure. “Qualified rehabilitation expenditure” is defined as any amount that (1) is properly chargeable to a capital account; (2) is expended in the rehabilitation of a structure that is a certified historic structure by the end of the calendar year in which the certified rehabilitation is completed; (3) is expended in compliance with an MHT-approved plan of proposed rehabilitation; and (4) is not funded, financed, or otherwise reimbursed by any

State or local financial assistance other than certain loans, as specified. For commercial rehabilitations, the Director of MHT may not accept an application for approval of plans of proposed rehabilitation if any substantial part of the proposed rehabilitation work has begun.

Tax Credit Allowed

The value of the credit is generally equal to 20% of qualified rehabilitation expenditures; certain enhancements are available for commercial rehabilitations that are high performance buildings or that qualify as affordable housing or as Level 1 or Level 2 opportunity zone projects, as defined. For a commercial rehabilitation, the credit may not exceed \$5.0 million (\$5.25 million for a Level 1 opportunity zone project or \$5.5 million for a Level 2 opportunity zone project) and may not exceed the maximum amount stated on an initial tax credit certificate issued for the rehabilitation. For all other rehabilitations, the credit generally may not exceed \$50,000; for a small commercial project that is a Level 1 or Level 2 opportunity zone project, this limit increases to \$55,000 or \$60,000, respectively.

Tax credits for commercial and small commercial rehabilitations are subject to annual appropriations to the Historic Revitalization Tax Credit Reserve Fund and Small Commercial Project Trust Account, respectively. To the reserve fund, the Governor must appropriate at least \$16.5 million in each of fiscal 2026 through 2028 and \$20.0 million in each of fiscal 2029 through 2031. The Governor must appropriate an additional \$2.0 million annually for the trust account within the reserve fund through fiscal 2031.

Competitive Award Process for Commercial Rehabilitations

For commercial rehabilitations, the Director of MHT must establish a competitive award process that prioritizes rehabilitation projects that (1) are consistent with and promote current growth and development policies and programs of the State; (2) are located in areas targeted by the State for additional revitalization and economic development opportunities due to the focusing of State 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 specified; and (4) include affordable and workforce housing options.

Tax Credit Recapture

Tax credits must be fully or partially recaptured if, during the tax year in which a certified rehabilitation is completed or any of the four following tax years, any disqualifying work is performed on the certified rehabilitation or, for a commercial rehabilitation, the certified rehabilitation is complete and has been disposed of (as specified). Such disqualifying work

or disposal results in 100% recapture if it occurs during the tax year in which the certified rehabilitation was completed or partial recapture (as specified) if it occurs in any of the four following tax years. The individual or business entity that claimed the tax credit must pay the amount to be recaptured as taxes payable to the State, as specified.

State Fiscal Effect: The bill's changes primarily affect the commercial rehabilitation credit but also expand the definitions of "qualified rehabilitation expenditure" and "substantial rehabilitation" as they apply broadly to the tax credit program. General fund revenues decrease, and reserve fund revenues and expenditures increase, to the extent recaptured credits are deposited in the reserve fund to be issued as initial or supplemental commercial rehabilitation credit certificates in a future year, as required by the bill. The bill is not otherwise expected to materially affect overall expenditures for the commercial and small commercial credits, which are subject to annual appropriations to the reserve fund and trust account, respectively, though it may affect the allocation of tax credit awards. However, general fund revenues may decrease in any of fiscal 2027 through 2031 to the extent the bill's modifications to the definitions of "qualified rehabilitation expenditure" and "substantial rehabilitation" increase utilization of or amounts awarded under the homeowner credit, which is not budgeted or subject to an aggregate limitation. Any such effect cannot be reliably predicted at this time.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Department of Commerce; Comptroller's Office; Department of Housing and Community Development; Maryland Department of Planning; Maryland Department of Transportation; Department of Legislative Services

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