

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 640
 Ways and Means

(Delegate Luedtke)

Budget and Taxation

Historic Revitalization Tax Credit – Certified Historic Structure and Single-Family, Owner-Occupied Residence – Definitions

This bill alters the definition of a certified historic structure and single-family, owner-occupied residence under the Historic Revitalization Tax Credit Program to include a structure that is (1) located on property owned by the Department of Natural Resources (DNR) or one of its units and (2) occupied by a person under an agreement with DNR by which the person pays for rehabilitation of the structure as a condition of occupancy. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease by \$35,000 in FY 2021 and by \$70,000 annually beginning in FY 2022 due to additional residential tax credits claimed against the income tax. Expenditures are not affected.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$35,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)
Expenditure	0	0	0	0	0
Net Effect	(\$35,000)	(\$70,000)	(\$70,000)	(\$70,000)	(\$70,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Maryland Historical Trust (MHT) evaluates the historic significance of a structure. A certified historic structure is a structure that is (1) individually listed on the National Register of Historic Places; (2) designated as a historic property under local law and determined to be eligible for listing in the National Register; (3) located in a historic district listed on the National Register of Historic Places or in a local historic district and determined to be eligible for listing on the National Register of Historic Places and is certified to be contributing to the district or area; or (4) located in a certified historic heritage area and certified by the Maryland Heritage Areas Authority as contributing to the area.

A certified historic structure does not include a structure that is owned by the State, a political division of the State, or the federal government.

Background:

Historic Revitalization Tax Credit Program

The Historic Revitalization Tax Credit Program provides tax credits for commercial, small commercial, and owner-occupied residential property rehabilitations. The value of the refundable credit is based on the type of rehabilitation undertaken and up to a percentage of qualified rehabilitation expenditures, as follows:

- 20% for the rehabilitation of a single-family, owner-occupied residence, or a small commercial project; and
- 20% for the commercial rehabilitation of a certified historic structure or 25% if certain energy efficiency standards are met.

The value of the tax credit may not exceed (1) for a commercial rehabilitation (any building that is not a single-family, owner-occupied residence, or small commercial project), \$3 million or the maximum amount specified under the initial credit certificate or (2) for all other rehabilitations, \$50,000. These maximum values are increased if a project meets certain requirements and is located within a federal opportunity zone.

Applying for the credit is a three-part process administered by MHT within the Maryland Department of Planning.

Commercial Program

The commercial program includes the rehabilitation of certified historic structures and is the largest component of the program. The commercial credit is a budgeted tax credit and

the Governor must appropriate funds to the program annually through fiscal 2024. The Governor is not required to appropriate an amount to the reserve fund in each year. MHT awards credits through a competitive process, with the amount awarded each year generally limited to the amount appropriated to the program.

Small Commercial Project Program

Chapter 601 of 2014 established credit eligibility for certain small commercial projects. Applicants must apply to MHT in order to qualify and receive an initial credit certificate. MHT may award a maximum of \$4.0 million in credits between January 1, 2015, and June 30, 2024.

A small commercial project is the rehabilitation of a structure if the qualified rehabilitation expenditures do not exceed \$500,000 and the structure is (1) primarily used for commercial, income-producing purposes; (2) a residential unit in a consecutive series of similar residential units that are arranged in a row, side by side, and is sold as part of a specified development project; or (3) an agricultural or post-World War II structure that meets certain requirements.

Residential Program

MHT can award tax credits for the rehabilitation of a single-family, owner-occupied residence through June 30, 2024. A single-family, owner-occupied residence is a structure or a portion of a structure occupied by the owner and the owner's immediate family as their primary or secondary residence. A single-family, owner-occupied residence also includes a residential unit in a cooperative project owned or leased to a cooperative housing corporation and leased for exclusive occupancy to, and occupied by, a member of the corporation and the member's immediate family.

Maryland Resident Curatorship – Department of Natural Resources

Established in 1982, the Maryland Resident Curatorship Program offers a person the right to lifetime tenancy in a historic property in exchange for restoring and maintaining the property and periodically sharing it with the public. DNR estimates that about 40 of these properties may be eligible for the Historic Revitalization Tax Credit Program under the bill's specifications.

State Fiscal Effect: The bill expands the definition of certified historic structure and single-family, owner-occupied residence to include a structure that is owned by DNR and occupied by a person under an agreement by which the person pays for rehabilitation of the structure as a condition of occupancy.

DNR estimates that four structures will be rehabilitated each year and receive \$70,000 in tax credits. MHT advises that these structures will qualify under the residential tax credit program. Given the bill's July 1, 2020 effective date, it is assumed that general fund revenues will decrease by \$35,000 in fiscal 2021, and by \$70,000 annually beginning in fiscal 2022.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Natural Resources; Maryland Department of Planning; Department of Legislative Services

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