

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1301
Ways and Means

(Delegate Wells)

Property Tax Credit - Opportunity Zone Property Improvements

This bill authorizes local governments to grant a property tax credit for the eligible assessment of qualified opportunity zone property if the taxpayer has invested at least \$100,000 (including acquisition costs and improvements) in the qualified opportunity zone property. The tax credit amount is based on the increased value of the qualified opportunity zone property resulting from the improvements made to the property. In the first taxable year, the tax credit equals 100% of the property tax resulting from the improvements. In the second through sixth taxable years, the tax credit equals 10% of the property tax resulting from the improvements. **The bill takes effect June 1, 2020, and applies to taxable years beginning after June 30, 2020.**

Fiscal Summary

State Effect: None.

Local Effect: Local property tax revenues decrease beginning in FY 2021 to the extent the property tax credit is granted. The amount of the revenue decrease depends on the number of businesses that qualify for the property tax credit, the value of improvements made to real property, and local property tax rates. Local expenditures are not affected.

Small Business Effect: Potential meaningful. Small businesses that qualify for the property tax credit will realize reduced property tax payments.

Analysis

Bill Summary: Local governments are authorized to establish (1) additional eligibility requirements for the property tax credit; (2) procedures for the application and uniform processing of requests for the property tax credit; and (3) any other provisions necessary to carry out the property tax credit.

Selected Definitions

Eligible assessment is defined as the difference between the base year value and the actual value as determined by the State Department of Assessments and Taxation for the applicable taxable year in which the tax credit is to be granted.

Base year is defined as the taxable year immediately before the taxable year in which a property tax credit is to be granted.

Base year value is defined as the value of the property used to determine the assessment on which the property tax on real property was imposed for the base year. Base year value does not include any new real property that was first assessed in the base year.

Qualified opportunity zone property is defined as real property (1) located in an opportunity zone, as defined in § 6-1001 of the Economic Development Article and (2) acquired by the taxpayer on or after December 31, 2019.

Current Law/Background: The Federal Tax Cuts and Jobs Act of 2017 established the Qualified Opportunity Zones Program to incentivize private investment in certain communities. Under the Act, states may nominate up to 25% of specified low-income census tracts for designation by the U.S. Treasury as opportunity zones.

The program offers three federal tax incentives related to capital gains: (1) a temporary tax deferral for capital gains reinvested in an Opportunity Fund; (2) a step up in basis for capital gains reinvested in an Opportunity Fund, which excludes up to 15% of the original capital gain from taxation; and (3) a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund, if the investment is held for at least 10 years. Investors and investments must also meet numerous other requirements.

Qualifying investments may only be made through calendar 2026. The opportunity zone designations expire on December 31, 2028, but the tax benefits for existing investments may be claimed through at least calendar 2047.

Maryland generally conforms to federal tax law, so any capital gain deferred or excluded under the program is also deferred or excluded under the Maryland income tax.

The U.S. Treasury has designated a total of 8,769 zones, of which 149 are located in Maryland. The U.S. Joint Committee on Taxation estimates the program will reduce federal revenues by about \$3.4 billion annually throughout the next five federal fiscal years. **Appendix 1 – Federal Opportunity Zones** shows the current federal opportunity zones in Maryland.

In addition to federal and State tax benefits, Chapter 211 of 2019 established the Opportunity Zone Enhancement Program. Administered by the Department of Commerce, the program provides enhanced incentives for qualifying businesses within an opportunity zone. Qualifying businesses within an opportunity zone may qualify for enhanced incentives under the following tax credit programs: (1) job creation; (2) One Maryland; (3) enterprise zone; (4) biotechnology investment incentive; (5) cybersecurity investment incentive; and (6) More Jobs for Marylanders.

Local Fiscal Effect: Local property tax revenues decrease beginning in fiscal 2021 to the extent the property tax credit is granted. The amount of the revenue decrease depends on the number of businesses that qualify for the property tax credit, the value of improvements made to real property, and local property tax rates.

As a point of reference, local property tax revenues decrease by approximately \$1,267 in the first year of the tax credit for each \$100,000 of improvements that qualify for the property tax credit and by \$127 in the second through sixth year of the tax credit. This estimate is based on an average local property tax rate of \$1.267 per \$100 of assessment.

Additional information on local property tax rates and revenues can be found in the [County Revenue Outlook report](#). A copy of the report is available on the Department of Legislative Services website.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Baltimore City; Harford County; Montgomery County; Maryland Association of Counties; Department of Commerce; State Department of Assessments and Taxation; Department of Legislative Services

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Appendix 1 – Federal Opportunity Zones



Source: Department of Information Technology (MD iMAP)