

**Department of Legislative Services**  
 Maryland General Assembly  
 2021 Session

**FISCAL AND POLICY NOTE**  
**Enrolled - Revised**

Senate Bill 885

(Senator Hester)

Budget and Taxation

Ways and Means

**Economic and Community Development - Income Tax Credit for Catalytic Revitalization Projects and Historic Revitalization Tax Credit**

This bill creates a refundable credit against the State income tax for 20% of the rehabilitation and new construction costs incurred for a qualified “catalytic revitalization project” in the State. The Department of Housing and Community Development (DHCD) is required to administer the credit. The bill also requires (1) the Governor to include an appropriation of at least \$12.0 million for historic revitalization commercial tax credits in fiscal 2023 and 2024 and (2) the Redevelopment of Historic Government Complexes Steering Committee to continue its work and report by December 31, 2021, recommendations for the adaptive use of historic properties that are or were owned by the State or federal government. **The bill takes effect July 1, 2021.**

**Fiscal Summary**

**State Effect:** General fund revenues may decrease by \$3.0 million in FY 2022 and by \$9.0 million in FY 2026 due to catalytic revitalization tax credits claimed against the income tax. General fund expenditures may increase by \$0.1 million in FY 2022, \$3.1 million annually in FY 2023 and 2024, and by \$0.1 million annually in FY 2025 and 2026 due to historic revitalization tax credit commercial tax credit appropriations and administrative costs at DHCD and the Comptroller’s Office. **This bill establishes a mandated appropriation in FY 2023 and 2024.**

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$3.0)	(\$3.0)	(\$6.0)	(\$6.0)	(\$9.0)
GF Expenditure	\$0.1	\$3.1	\$3.1	\$0.1	\$0.1
Net Effect	(\$3.1)	(\$6.1)	(\$9.1)	(\$6.1)	(\$9.1)

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

**Local Effect:** Local highway user revenues decrease to the extent credits are claimed against the corporate income tax. Local expenditures are not affected.

**Small Business Effect:** Minimal.

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## Analysis

### Bill Summary:

#### *Catalytic Revitalization Project – Income Tax Credit*

Beginning in tax year 2021, a business, individual, or nonprofit organization that meets specified requirements and is approved by DHCD may receive a refundable tax credit equal to 20% of qualified rehabilitation and new construction costs incurred in the State. A catalytic revitalization project is the substantial rehabilitation of a property in the State that is out of service, was formerly owned by the State or federal government, and is a property that was previously used as a college or university, K-12 school, hospital, mental health facility, or military installation. The rehabilitation must foster economic, housing, and community development.

A taxpayer must claim the credit over five years, beginning with the year in which the project is completed. Subject to specified conditions, the tax credit is transferable.

The Secretary of Housing and Community Development may not award (1) an initial credit certificate for more than one project within a two-year period and (2) more than \$15.0 million in tax credits for each project. DHCD must, in consultation with the Department of Commerce, adopt regulations implementing the program including the establishment of an application process with an emphasis on applications that promote affordable housing. The tax credit program terminates January 1, 2031.

#### *Redevelopment of Historic Government Complexes Steering Committee*

Chapter 334 of 2019 required the Secretary of Planning to contract with a consultant to conduct a study on the adaptive reuse of historic properties located within the State that are or were owned by the State or the federal government. The work of the consultant must be guided by a steering committee consisting of the Secretary (or the Secretary's designee), one member of the Senate, one member of the House of Delegates, one representative of the private sector with experience in historic preservation, and one representative of a nonprofit organization who has experience in historic preservation.

The bill requires the steering committee to continue its work and (1) report its recommendations by December 31, 2021, to DHCD and Commerce and (2) coordinate its efforts with the Secretary of Housing and Community Development in order to further the objectives of the tax credit program established by the bill. These provisions terminate June 30, 2023.

### *Historic Revitalization Tax Credit Program*

The Governor must provide an appropriation of at least \$12.0 million to the reserve fund for commercial projects in fiscal 2023 and 2024.

**Current Law:** 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 is generally equal to 20% of the qualified rehabilitation expenditures.

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 a specific amount to the reserve fund in each year.

**State Fiscal Effect:** The bill (1) creates a refundable credit against the State income tax for a qualified catalytic revitalization project and (2) mandates in fiscal 2023 and 2024 minimum funding to the reserve fund for historic revitalization commercial projects. As a result, the net effect on State finances will be a decrease of \$3.1 million in fiscal 2022, \$6.1 million in fiscal 2023, \$9.1 million in fiscal 2024, \$6.1 million in fiscal 2025, and \$9.1 million in fiscal 2026. **Appendix 1** details the fiscal impact of the bill in fiscal 2022 through 2026.

### *Catalytic Revitalization Projects – Income Tax Credit*

DHCD may award to each project a maximum \$15.0 million tax credit, and may issue a tax credit to a project every two years. A taxpayer claiming the tax credit must claim the credit over a five-year period. As a result, general fund revenues will decrease by \$3.0 million annually in fiscal 2022 and 2023, by \$6.0 million annually in fiscal 2024 and 2025, and by \$9.0 million in fiscal 2026. State revenues will decrease by a total of \$75.0 million through fiscal 2034.

This estimate assumes that DHCD awards the maximum amount of authorized credits and tax credits are claimed against the personal income tax. To the extent tax credits are claimed against the corporate income tax, a portion of the tax credits claimed will decrease Transportation Trust Fund and Higher Education Investment Fund revenues.

DHCD requires one program administrator to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$78,749 in fiscal 2022. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2021. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Salary and Fringe Benefits	\$72,504
Other Operating Expenses	<u>6,245</u>
<b>Total FY 2022 Expenditures</b>	<b>\$78,749</b>

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

The Comptroller’s Office reports that it will incur a one-time general fund expenditure increase of \$60,000 in fiscal 2022 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.

*Historic Revitalization Tax Credit – Commercial Program Appropriation*

The bill requires the Governor to appropriate at least \$12.0 million to the commercial tax credit reserve fund in fiscal 2023 and 2024. Based on recent program appropriations, general fund expenditures will increase by \$3.0 million annually in fiscal 2023 and 2024.

**Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Comptroller’s Office; Department of Housing and Community Development; Department of Legislative Services

**Fiscal Note History:** rh/jrb  
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**Appendix 1 – Fiscal Impact of Legislation**  
**Fiscal 2022-2026**  
**(\$ in Millions)**

	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>	<u><b>FY 2024</b></u>	<u><b>FY 2025</b></u>	<u><b>FY 2026</b></u>
<b>General Fund Revenues:</b>					
Catalytic Revitalization Projects	(\$3,000,000)	(\$3,000,000)	(\$6,000,000)	(\$6,000,000)	(\$9,000,000)
<b>Total Revenues</b>	<b>(\$3,000,000)</b>	<b>(\$3,000,000)</b>	<b>(\$6,000,000)</b>	<b>(\$6,000,000)</b>	<b>(\$9,000,000)</b>
<b>General Fund Expenditures:</b>					
Historic Revitalization Tax Credit	\$0	\$3,000,000	\$3,000,000	\$0	\$0
DHCD – Administrative Expenses	78,700	67,000	69,200	71,500	73,900
Comptroller – Administrative Expenses	60,000	0.0	0.0	0.0	0.0
<b>Total Expenditures</b>	<b>\$138,700</b>	<b>\$3,067,000</b>	<b>\$3,069,200</b>	<b>\$71,500</b>	<b>\$73,900</b>
<b>Net Effect</b>	<b>(\$3,138,700)</b>	<b>(\$6,067,000)</b>	<b>(\$9,069,200)</b>	<b>(\$6,071,500)</b>	<b>(\$9,073,900)</b>

DHCD: Department of Housing and Community Development

Source: Department of Legislative Services