

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 355  
Ways and Means

(Delegate Haddaway, *et al.*)

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Maryland Heritage Structure Rehabilitation Tax Credits - Expenditures Exempt  
from Preapproval

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This bill exempts historic rehabilitation expenses incurred as a result of a fire, flood, storm, or similar circumstance from the existing requirement that the Maryland Historic Trust approve all rehabilitation expenditures before they are undertaken in order to qualify for the Heritage Structure Rehabilitation tax credit.

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Fiscal Summary

**State Effect:** None. The bill codifies existing practice at MHT.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Current Law:** Subject to the limitations below, individuals or businesses who rehabilitate certified historic structures can claim a refundable income tax credit equal to 20% of qualified rehabilitation expenditures. Qualified rehabilitation expenditures must be (1) properly chargeable to a capital account; (2) expended in the rehabilitation of a structure that by the end of the calendar year in which the certified rehabilitation is completed is a certified heritage structure; (3) expended in compliance with a plan of proposed rehabilitation approved by MHT; and (4) not funded, financed, or otherwise reimbursed by specified State or local monies. The rehabilitation must be more than

\$5,000 for owner-occupied residential property and the greater of \$5,000 or the adjusted basis of the structure for commercial projects.

The amount of the credit for any commercial project may not exceed \$3 million or the amount specified under the initial credit certificate issued by MHT upon initial approval of the project. For owner-occupied residential property, the credit may not exceed \$50,000. For any fiscal year, MHT cannot approve more commercial credits than the amount of money in the Heritage Structure Credit Reserve Fund, which includes any money appropriated to the fund and any unexpended money from previous fiscal years.

The program terminates July 1, 2010.

**Background:** Established in 1996, the Heritage Structure Rehabilitation Tax Credit Program provides, subject to certain limitations, a credit for 20% of the qualified expenditures for rehabilitating a certified historic structure. Over time, the credit has become one of the State's most important economic development tools.

In 2004, the General Assembly substantially altered the tax credit program, including converting the commercial credit part of the program from a traditional tax credit program to a tax credit program that is subject to an annual budgetary appropriation with an aggregate limit. Individuals seeking to claim the credit for the rehabilitation of commercial property are subject to a competitive ranking process.

Chapter 566 of 2007 extended the program's termination date through fiscal 2010 for both commercial and owner-occupied residential property rehabilitations. Chapter 566 required the Governor to include, in the annual budget bill, an appropriation to the Heritage Structure Credit Reserve Fund. A maximum of 75% of total commercial credits issued in a fiscal year may be allocated for commercial projects located in one county or Baltimore City.

**Exhibit 1** lists the amount of money appropriated to the reserve fund in fiscal 2006 through 2008, additional amounts that could be awarded from previous fiscal years, and total amount of commercial credits awarded by MHT.

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**Exhibit 1**  
**Total Commercial Credits Appropriated and Awarded**  
**Fiscal 2006-2008**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Appropriation	\$20,000,000	\$30,000,000	\$15,000,000
Board of Public Works Action	<u>0</u>	<u>0</u>	<u>(300,000)</u>
Net Allocation to Reserve Fund	\$20,000,000	\$30,000,000	\$14,700,000
Available from Previous Years	\$0	\$328,744	\$9,939,939
Total Available for Allocation	\$20,000,000	\$30,328,744	\$24,639,939
Total Allocated	\$19,671,256	\$20,388,805	\$24,678,195

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The proposed fiscal 2009 State budget provides \$14.7 million to the reserve fund. In calendar 2006, 252 individuals claimed a total of \$4.4 million in residential credits.

**State Fiscal Effect:** The bill would allow individuals or businesses to claim the credit for the rehabilitation expenses resulting from a fire, storm, flood, or similar circumstance without prior approval from MHT.

Under the program, it can typically take 30 to 60 days for planned rehabilitation expenses to be approved by MHT. MHT advises that as a matter of practice if an individual must undertake extraordinary rehabilitation of a historic structure due to a storm, flood, or similar situation, the individual can apply to MHT for a waiver of the requirement that expenditures be approved before rehabilitation in order to claim the credit. Therefore, the bill would not materially impact State revenues.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2008  
ncs/hlb

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