MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Credit for Low-income Housing

February 19, 2002

	Yes	No
Separate Official Fiscal Note Requested		
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2985 (Anderson, I.)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
		(000's)		
Corporate Franchise Tax	($0)	($500)	($1,000)	($1,600)
Individual Income Tax	(0)	(200)	(500)	(700)
General Fund	($0)	($700)	($1,500)	($2,300)

Effective for tax years beginning after December 31, 2001, and it is assumed that the credits will be applicable to projects that are allocated credits after December 31, 2001.

EXPLANATION OF THE BILL
Current Law: There is no credit for low-income housing.

Proposed Law: Both individual and corporate franchise taxpayers will be allowed a nonrefundable tax credit equal to the federal low-income housing tax credit provided that the housing project is built in a distressed area as defined by M.S. 462C.02, subdivision 9, clause (f).

Note: It is understood that the intent is to have the credit apply to projects which are started after the effective date of the bill. Although the language of the bill as drafted does not clearly make that distinction, the analysis reflects that understanding.

REVENUE ANALYSIS DETAIL

- Distressed areas as defined by M.S. 462C.02, subdivision 9, clause (f), areas of chronic economic distress, are designated by the Minnesota Housing Finance Agency. The agency has had no past experience designating areas of chronic economic distress. Guidelines for the distribution of federal low-income tax credits are based on a qualified allocation plan. Based on the guidelines in the current allocation plan, it appears that a large percentage of the low-income tax credits go to areas other than areas of chronic economic distress.
- The current allocation plan does allocate some credits for the preservation of existing low-income housing and for qualified census tracts. This part of the allocation plan appears to qualify as projects built in areas of chronic economic distress. Based on limited information on what qualifies as a distressed area, it is assumed that 15% of all federal low-income housing tax credit money will be built in areas of chronic economic distress.
- The estimates are based on Department of Treasury tax expenditure estimates on the credit for low-income housing investments in the Fiscal Year 2003 budget, Analytical Perspectives, Chapter 6.
- The method to apportion and to convert federal tax expenditure estimates to Minnesota follows the same methodology used in the Minnesota tax expenditure budget.
- The state tax credit will apply to new projects begun after the bill's effective date i.e., the state tax credit can not be applied to existing projects begun before the bill's effective date. It appears that the bill needs to be amended to make it clearer that the credit applies to projects begun after the bill's effective date.
- During year one through nine of the phase-in period (FY 2003-2011) the revenue loss estimate is based on between 10% -90% of the apportioned federal tax expenditure estimate. For example, the year one estimate is based on 10% of the apportioned federal tax expenditure estimate, and the year nine estimate is based on 90% of the apportioned federal tax expenditure estimate.
- It will take ten years to phase-in the full revenue loss from this bill. After the phase-in period the bill will generate revenue losses of at least $7 million per year ($.7 million times 10).
- This estimate includes revenue losses from both individual and corporate franchise taxpayers

Number of Taxpayer Affected: About 2,500 taxpayers

ADMINISTRATIVE/OPERATIONAL ISSUES

The bill requires a new line to be added to the individual and corporate franchise income tax forms along with instructions and programming changes.

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