INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Credit for Historic Rehabilitation

February 12, 2001

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

Department of Revenue
Analysis of S.F. 169 (Pappas)/ H.F. 596 (Abeler)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
Corporate Franchise Tax	($1,400)	($3,100)	($3,400)	($3,800)
Individual Income Tax				
Income Producing	(600)	(800)	(800)	(1,000)
Homestead	(300)	(600)	(800)	(800)
General Fund	($2,300)	($4,500)	($5,000)	($5,600)

Effective for tax years beginning after December 31, 2000.

EXPLANATION OF THE BILL

Current Law: There is no state income tax credit for historic structure rehabilitation.

Proposed Law: Both individual income and corporate franchise taxpayers would receive a non-refundable tax credit equal to 25% of the total cost to rehabilitate a historic structure. To qualify for the credit, the rehabilitation costs must exceed 50% of the property's basis before rehabilitation. If the credit exceeds a taxpayer's liability, it may be carried back three years and carried forward ten years. Also, in lieu of claiming the tax credit, building owners may transfer the value of the tax credit to their lender. Under this option the lender claims a tax credit.

In a process similar to the process used by taxpayers now receiving the federal tax credit, the State Historic Preservation Office of the Minnesota Historical Society will approve historic rehabilitation work eligible for the tax credit and issue certificates for claiming the credit.

The proposed credit is similar to the 20% federal tax credit for historic structure rehabilitation. Federal law permits the tax credit to be taken on income producing property. In addition to income producing property, the bill extends the credit to qualified homestead property in historic districts.

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REVENUE ANALYSIS DETAIL

Income Producing Property:

- The estimate uses Department of Treasury tax expenditure estimates labeled tax incentives for preservation of historic structures in the Fiscal Year 2001 budget, Analytical Perspectives, Chapter 5.
- The dollar value of historic rehabilitation expenditures is based on data provided by the Minnesota Historical Society.
- Minnesota's portion of federal estimates is initially based on Minnesota's portion of the total U.S. tax credit for historic rehabilitation expenditures. Minnesota's portion of federal estimates is assumed to increase in future years toward the Minnesota portion of total U.S. income.
- Apportioned federal tax expenditure estimates are increased to reflect the proposed 25% state tax credit versus the 20% federal tax credit.

Homestead Property:

- The estimate uses a Joint Committee on Taxation 1999 estimate of a similar bill introduced during the 106th Congress, H.R. 1172 / S 664.
- Minnesota's portion of federal estimates is initially based on one quarter of Minnesota's portion of the total U.S. tax credit for historic rehabilitation expenditures. Minnesota's portion of federal estimates is assumed to increase in future years toward the Minnesota portion of total U.S. income in fiscal years beyond FY 2005.
- Since homesteads are not covered by the current federal tax credit, the estimate assumes only small number of projects will qualify for the tax credit during fiscal years 2002 through 2005. However, given the experience of the tax credit in Wisconsin where about 200 projects qualify for this credit, it is assumed there will be a large growth in the usage of the credit.
- Apportioned federal estimates are increased to reflect the proposed 25% state tax credit versus the 20% federal tax credit.
- This bill contains a lender credit provision, where a building owner may transfer the value of the tax credit to a lender, which appears to be unique to Minnesota. It is unknown what effect this provision will have on the revenue loss estimate.
- There is great deal of uncertainty about the cost of the homestead credit because the bill lacks a provision on the maximum dollar value of the credit. The maximum credit is $10,000 under Wisconsin law and $40,000 under the proposed federal bill.

Number of Taxpayer Affected: At least 50 taxpayers per year.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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