

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Historic Rehabilitation Credit

March 13, 2007

Department of Revenue
Analysis of S.F. 385 (Pogemiller) / H.F. 1240 (Marquart)

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
Corporate Franchise Tax	(\$4,500)	(\$4,700)	(\$5,400)	(\$5,700)
Individual Income Tax				
Income Producing	(\$1,400)	(\$1,400)	(\$1,700)	(\$1,700)
Homestead	<u>(\$1,100)</u>	<u>(\$1,100)</u>	<u>(\$1,400)</u>	<u>(\$2,200)</u>
General Fund Total	(\$7,000)	(\$7,200)	(\$8,500)	(\$9,600)

Effective for tax years beginning after December 31, 2006.

EXPLANATION OF THE BILL

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. The credit may also be sold to another taxpayer. 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 to taxpayers so that they can claim their tax credits.

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.

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 2008 budget, Analytical Perspectives, Chapter 5.

REVENUE ANALYSIS DETAIL (Continued)

- Minnesota's portion of federal estimates is initially based on Minnesota's portion of the 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. This estimate was based on a maximum tax credit of \$40,000. Since there is no limit on the tax credit in this bill, the federal estimate was increased to reflect the lack of a maximum credit.
- 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 2011.
- Since homesteads are not covered by the current federal tax credit, the estimate assumes only a small number of projects will qualify for the tax credit during fiscal years 2008 through 2011. However, given the experience of the tax credit in Wisconsin where over 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.

Both Types of Property:

- 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 credit because the bill lacks a provision on the maximum dollar value of the credit. In Minnesota there are 6,000 properties in the national register of historic places. A large percentage of these properties could qualify for the credit.

Number of Taxpayers: At least 50 taxpayers per year.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy