CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
INSURANCE PREMIUMS TAX
Historic Rehabilitation Tax Credit

March 21, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1558 (Hoppe)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
General Fund	($7,600)	$0	($32,800)	($29,300)

Effective retroactively to tax year 2010 and applies to projects placed in service after May 1, 2010. The payment of the tax credits issued under the above conditions is delayed until fiscal year 2014.

EXPLANATION OF THE BILL

Current Law: Both individual income and corporate franchise taxpayers plus insurance gross premium taxpayers can receive a refundable tax credit equal to 100% of the federal historic structure rehabilitation tax credit. The credit is effective beginning with tax year 2010 for costs paid under binding contracts entered into after May 1, 2010. The binding contracts must cover the entire cost of the project. If binding contracts entered into after May 1, 2010 cover only a portion of the cost a project, no credit can be claimed. The federal credit allows taxpayers to claim a tax credit equal to 20% of the cost to rehabilitate a historic building. The tax credit can be transferred to any income tax or gross premium taxpayer.

To qualify for the credit, the rehabilitation costs must exceed 100% of the property's basis before rehabilitation. As with federal law, the state tax credit is taken only on income-producing property.

In a process similar to the one used by taxpayers receiving the federal tax credit, the State Historic Preservation Office (SHPO) of the Minnesota Historical Society issues a part 3 certification on work eligible for the tax credit.

Also, taxpayers can either qualify for a grant in lieu of the credit or for a combination of tax credit and a grant. The size of the grant cannot exceed 90% of the value of the federal credit.

Authority to issue tax credit certificates and grants expires at the end of fiscal year 2015. Taxpayers are allowed to use issued credits until 2018.

Proposed Law: The bill would extend the authority to issue tax credit certificates or grants until the end of fiscal year 2021. Taxpayers are allowed to use issued credits until 2024.

Also, under the bill, taxpayers would be able to use a contested case proceeding as a means to challenge any decision made by SHPO regarding initial eligibility for the credit.

The bill retroactively modifies the effective date when credits can be claimed. Under the bill, only the date a project is placed in service (after May 1, 2010) would determine if the credits could be claimed. This differs from current law which allows the credit if two different conditions are met. These conditions are that construction contracts must be entered into after May 1, 2010 and that the qualified rehabilitation work must be started after May 1, 2010.

REVENUE ANALYSIS DETAIL

- The fiscal year 2014 estimate is from information provided by the Minnesota Historical Society. This estimate is a preliminary estimate that may be revised when more information is available.
- The bill would permit tax credits and grants to be issued for six additional years. It is not known what qualifying projects will be completed in those years.
- The estimated revenue impact includes both tax credits and grants and is based on the February 2013 MMB forecast.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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