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

March 19, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 2449 (Ortman) / H.F. 2850 (Hoppe)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
General Fund	$0	($7,600)	($100)	$0

Effective the day following final enactment. The changes apply retroactively for projects placed into service after May 1, 2010.

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 was effective beginning with tax year 2010 for costs paid under binding contracts entered into after May 1, 2010. 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.

Proposed Law: The bill changes the language affecting assignment of refundable tax credits for historic structure rehabilitation. The bill would make obsolete DOR Revenue Notice #12-06 which was published March 12, 2012. Instead of the credit being assignable one time to one taxpayer as under current law, it could be assigned "in whole or in part" up to three times "without the consent of the commissioner." The commissioner would have to be notified of any assignment.

EXPLANATION OF THE BILL (Cont.)

The bill includes parallel assignment language for the grant, which previously had no assignment language. Notification of grant assignment would go to SHPO which administers the grant.

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.

As with prior law, the bill is effective beginning with tax year 2010. The bill has a retroactive change that includes projects placed in service after May 1, 2010. Because the effective would be tied to the date a project is placed in service, the starting date of construction may occur months or in some cases years before the starting date of after May 1, 2010, as permitted by current law.

REVENUE ANALYSIS DETAIL

- Information from the Minnesota Historical Society indicates that the retroactive change to the effective date would affect the tax credits claimed by six projects. The revenue estimate is the qualified rehabilitation expenditures from the six projects multiplied times 20%.
- The bulk of the revenue loss is from projects placed in service during tax years 2010 and 2011. The estimate for fiscal year 2014 includes projects placed in service during tax year 2014.

Number of Taxpayers: Six projects, with potentially more than one taxpayer per project. The possibility of multiple assignments of tax credits could greatly increase the number of taxpayers affected by the bill.

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

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