

MINNESOTA • REVENUE

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

May 7, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 1354 (Marquart) /S.F.1175 (Dziedzic) *Revised Estimate on Extension of Program to Fiscal Year 2021*

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	(\$4,000)	(\$0)	(\$6,600)	(\$18,900)

Effective retroactively to tax year 2010 and applies to projects regardless of the date of the contract, provided that the work was started and paid for 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 of 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.

As with prior law, the bill is effective beginning with tax year 2010. Regardless of the date of the contract for rehabilitation work, a tax credit on a portion of the total cost of a project could be claimed provided that the developer paid for the qualified rehabilitation expenditures after May 1, 2010 and that the qualified rehabilitation work was started after May 1, 2010.

REVENUE ANALYSIS DETAIL

- The fiscal year 2014 estimate is based on information provided by the Minnesota Historical Society.
- The bill would permit tax credits and grants to be authorized for six additional years. Based on recent experience, it is assumed that the Historical Society will authorize projects that will generate a combined total of credits and grants equaling \$40 million per fiscal year. The extension of the program over six years would generate a grand total of \$240 million of grants and tax credits.
- Data from the Minnesota Historical Society show there can be up to a three year delay between when a project is authorized and when a project is completed. The payment of any combination of tax credits and grants is delayed until the project is complete.
- An analysis of projects authorized during fiscal years 2011-2013 shows that almost 17% of all project dollars authorized in those years were completed in the same fiscal year. The remaining 83% of all project dollars authorized during a fiscal year were completed over the next three fiscal years.
- The revenue loss in fiscal year 2016 and 2017 is based on the pattern between project authorization and its final completion found in the fiscal year 2011-2013 data.
- Due to the delay between when a project is authorized and when a project is completed, the full impact of the law change is delayed until fiscal year 2019. In that year the projected revenue loss is estimated to be \$40 million.

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