

March 2, 2020

*Revised to Include Grants*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 1642 (Youakim), As Proposed to be Amended (H1642A2)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2020</u></b>	<b><u>F.Y. 2021</u></b>	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>
		(000's)		
General Fund	\$0	\$0	(\$6,000)	(\$11,300)

Effective for projects placed in service after December 31, 2019.

**EXPLANATION OF THE BILL**

**Current Law:** The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). In order to receive the state tax credit, the taxpayer must qualify for the federal tax credit. As with the federal credit, the Minnesota credit is spread over a period of five years.

Current law allows a one-time only assignment of the credit.

Due to the sunset provision in the law, there are no allocations of credit beyond fiscal year 2021.

**Proposed Law:** The bill allows the credit to be assigned multiple times. In addition, the bill repeals the sunset provision in current law.

**REVENUE ANALYSIS DETAIL**

- The multiple assignment of credits has no effect on the total amount of credits claimed.
- The State Historic Preservation Office (SHPO) and Minnesota Management and Budget (MMB) provided data on the amount of historic rehabilitation credits between fiscal years 2019 and 2023. The average amount of credits issued per year during this period is about \$30 million. Based on long-term trends, an additional 5% was added to reflect grants.
- Based on the data from SHPO and MMB, it is assumed that \$31.5 million in credits and grants would be allocated in each tax year.
- Due to the payment of the credit across five years, the amount of the revenue loss increases every until fiscal year 2027 when it plateaus at \$31.5 million per year. The revenue losses beyond fiscal year 2023 are the following:
  - Fiscal year 2024: (\$17.6 million)
  - Fiscal year 2025: (\$23.9 million)
  - Fiscal year 2026: (\$29.3 million)
  - Fiscal year 2027: (\$31.5 million)

**REVENUE ANALYSIS DETAIL (Cont.)**

- The last half of tax year 2021 would be affected by the removal of the sunset date. The total credits and grants associated with this part of tax year 2021 is \$15.8 million. The first installment of the credit for tax year 2021, \$3.2 million, is assumed to affect collections for fiscal year 2022.
- All other installments of tax credits is allocated 30% / 70% to fiscal years.

Minnesota Department of Revenue  
Tax Research Division  
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