



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

February 15, 2021

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 724 (Youakim) / S.F. 685 (Miller)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
General Fund	(\$6,700)	(\$12,600)	(\$19,600)	(\$26,600)

Effective for allocation of credits after June 30, 2021.

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.

The State Historic Preservation Office (SHPO) cannot allocate credits after June 30, 2021. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2024. A project is issued a credit certificate when work is completed, and the project is placed in service.

Proposed Law: The bill repeals the sunset provision in current law, allowing allocation certificates to be issued past June 30, 2021.

REVENUE ANALYSIS DETAIL

- The State Historic Preservation Office (SHPO) and Minnesota Management and Budget (MMB) provided data on the amount of historic rehabilitation credits between fiscal years 2013 and 2020. The average amount of credits issued per year during this period is about \$35 million.
- This amount includes an additional 5% to reflect grants in lieu of credits.
- It is assumed in tax year 2022 and beyond that the average amount of credits and grants per tax year will be \$35 million.
- The additional amount of tax certificates associated with tax year 2021 is estimated to be \$17.5 million. This amount reflects the additional half year of new authority to issue new credit certificates that is authorized by this bill.
- The payment of the credits associated with each project is spread across five years.
- The first payment in tax year 2021 is allocated to fiscal year 2022. For all other payments, tax year impacts are allocated 30% / 70% to fiscal years.

REVENUE ANALYSIS DETAIL (Cont.)

- Due to the payment of the credit across five years, the amount of the revenue loss increases every year until fiscal year 2027 when it plateaus at \$35 million per year. The revenue losses beyond fiscal year 2025 are the following:
 - Fiscal year 2026: (\$32.6 million)
 - Fiscal year 2027: (\$35.0 million)

Minnesota Department of Revenue
Tax Research Division
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