

March 1, 2023

*Revised to Correct Timing of Credits*

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings		<b>x</b>

Department of Revenue  
Analysis of S.F. 1340 (Dziedzic) / H.F. 1488 (Youakim)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>
		(000's)		
General Fund	(\$3,500)	(\$12,200)	(\$24,700)	(\$33,000)

Effective beginning July 1, 2023.

**EXPLANATION OF THE BILL**

**Current Law:** The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). The first requirement to receive the state tax credit is that 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, 2022. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2025. After a project is completed and placed in service, the final step is to issue tax credit certificates. Taxpayers use tax credit certificates to claim the tax credit.

**Proposed Law:** The bill would reinstate the credit effective July 1, 2023, allowing SHPO to allocate credits on or after that date. There is no sunset. The credit would be payable as a lump sum the year the project is placed in service, where it has previously been payable in five equal yearly installments.

The first step of obtaining a historic rehabilitation tax credit is for a developer to submit an application for a credit allocation to SHPO. The effective date of the proposal covers applications for credit allocations received by SHPO after June 30, 2023. Because the change is based when the application is received by SHPO, the change affect only new projects.

The time between a credit being allocated to a developer by SHPO and when a credit certificate is issued has been estimated using historical data. Once a credit is allocated, the credit certificate is issued somewhere between the same fiscal year it was allocated and three fiscal years after.

**REVENUE ANALYSIS DETAIL**

- Minnesota Management and Budget and SHPO 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.
- A portion of this amount (5%) reflects grants in lieu of credits.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Credits would be available for only half of tax year 2023; demand is expected to reflect more than half of a typical year's activity.
- The amount of tax certificates associated with tax year 2023 is \$21.0 million.
- The amount of tax certificates associated with tax year 2024 and for each year beyond is estimated to be \$35.0 million.
- The payment of the credit associated with each project is paid as a lump sum in the year the project is placed in service.
- The timing of the credit payments is estimated based on historical information from SHPO. Once a credit has been allocated, about 17% of the credit certificates are expected to be issued in the same fiscal year, 31% will be issued in the next fiscal year, 39% will be issued two fiscal years later, and 14% will be issued three fiscal years later.
- Fiscal year 2028 is the first fiscal year where the revenue loss is \$35 million. For fiscal years after 2028, the revenue loss remains steady at \$35 million.

Minnesota Department of Revenue  
Tax Research Division  
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