

April 14, 2025

Revised for Additional Information

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 2115 (Clark), as Proposed to be Amended (SCS2115A-3)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
		(000's)		
General Fund	\$0	\$0	(\$500)	(\$500)

Effective retroactively for projects for which an allocation certificate was issued 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). The credit may be claimed against the corporate franchise tax, individual income tax, or insurance premiums tax. To be eligible for the state credit, the taxpayer must qualify for the federal historic rehabilitation tax credit. As with the federal credit, the Minnesota credit is spread over a period of five years.

A qualifying project must be placed in service within three calendar years of receiving an allocation certificate. After a project is completed and placed in service, the State Historic Preservation Office (SHPO) issues a tax credit certificate. The credit certificate may be assigned to another taxpayer. A taxpayer may instead choose to receive a grant in lieu of the credit equal to 90% of the credit amount.

Proposed Law: The bill allows the first assignee to assign the credit certificate to a second assignee in whole, so long as it is done before the payment is claimed but after the first assignment.

The bill also extends the time allowed to qualify for the credit. Eligible projects would have to be placed in service within six calendar years (rather than three calendar years) after the issuance of the allocation certificate.

Lastly, the bill requires that the original credit certificate recipient and each assignee must file a return with the commissioner of administration for the taxable year that the project is placed in service.

REVENUE ANALYSIS DETAIL

- The assignment of credits to a second assignee would not have a fiscal impact. It is assumed that credits would be claimed in the same fiscal year as under current law.

REVENUE ANALYSIS DETAIL (Cont.)

- Based on information provided by SHPO, it appears that a small number of projects may not be placed in service within three calendar years of their allocation certificate issue date. Under current law, it is expected that these projects would claim a credit for the work done in the three-calendar year window, pause for a year, and re-apply for a credit that would encompass the remainder of the rehabilitation work.
- It is assumed that these projects would claim half of their expected credit as allocated, and claim the other half after pausing construction, reapplying a year later, and completing the project outside of the forecast window. If these projects were given the proposed six years to be placed in service, the second half of those credits would be pulled forward in time and the allocated credits would be claimed in full.
- The net impact of the six-year aspect of the proposal is zero. However, there is a difference in timing with a small revenue loss within the forecast window and a small revenue gain outside the forecast window.

Minnesota Department of Revenue
Tax Research Division
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