LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 4** HLS 201ES 21
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: July 6, 2020 4:40 PM
Author: MAGEE
Dept./Agy.: CRT / Revenue
Subject: Commercial Historic Rehabilitation Tax Credit Extension
Analyst: Greg Albrecht

TAX CREDITS EN SEE FISC NOTE GF RV See Note

Extends the date for eligible expenses to qualify for the tax credit for the rehabilitation of historic structures and extends the effectiveness of the credit (Item #19)

Present law provides tax credits of 20% of qualified expenses incurred before January 1, 2022 to rehabilitate nonresidential and rental historic structures in downtown development districts and cultural districts. Overall program credits are not capped, but per taxpayer per district credits are capped at $5 million per year. Credits are nonrefundable but transferable, and unused credit amounts are allowed a five-year carry-forward. State credits may be used in addition to any federal tax credit, and are available for eligible expenditures incurred before January 1, 2022.

Proposed law extends the program by four years, to expenses incurred before January 1, 2026. For Part 2 Proposed Work Description applications submitted on or after January 1, 2021, total program credits that can be reserved are capped at $125 million annually. Any unreserved credit amount in a year rolls over for allowance in the next year. CRT shall establish the method for reserving available credits. CRT and LDR shall develop a website posting of credit amounts available each year. Effective July 1, 2020.

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

Credit cap administration is an extra workload requirement for both CRT and LDR, although LDR already administers back-end caps for film tax credits and solar installation tax credits. These additional administrative requirements are likely to be manageable within existing agency resources.

REVENUE EXPLANATION

In the absence of the bill, credit costs should decline sometime after FY22 and beyond as current projects complete the program without new projects entering. This would result in an increasing amount of greater net tax receipts each year as the program winds down. The bill will delay for one year those baseline cost reductions from occurring. The average credit realizations of recent years (FY13-FY19) could be viewed as a simple anticipation of continued costs. This approach would imply continual total costs in the future years of the extension in excess of $72 million per year. The level of cost continuations could be greater than suggested by this seven-year average, as the program's fiscal year costs have trended up, and future realizations could be more in line with what has been experienced in FY17 - FY19 ($94 million per year). Projections submitted to the REC on May 11, 2020 by the Dept. of Revenue in the Incentive Expenditure Forecast estimated possible credit realizations for this program of $150 million in FY20 and $123 million in FY21.

The front-end cap of $125 million per year may constrain the program's long-run potential cost to that cap after FY23, to the extent the flow of projects through the program exhausts that cap. However, while trending up, actual credit realizations have not averaged that level, but performance averages can mask material annual variation ($8M - $34M since FY13), and unreserved cap amounts in one year roll over for allocation in following years, making specific annual program cost effects of the cap highly uncertain.

Senate Dual Referral Rules

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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