

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 16** HLS 201ES 5
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 4, 2020 4:04 PM	Author: ECHOLS
Dept./Agy.: CRT / Revenue	Analyst: Greg Albrecht
Subject: Commercial Historic Rehabilitation Tax Credit	

TAX CREDITS OR DECREASE GF RV See Note Page 1 of 1

Establishes a tax credit for eligible expenses incurred in the rehabilitation of historic structures included on the National Register of Historic Places (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. A minimum of \$10,000 must be spent on a project, and work must meet the standards of the federal Interior Department for rehabilitation, as determined by the state. Overall program credits are not capped, but per taxpayer per district credits are capped at \$5 million per year. Credits are nonrefundable but are transferable, and are allowed a five-year carry-forward for unused credit amounts. State credits may be used in addition to a 20% federal tax credit.

Proposed law provides a 30% credit for eligible rehabilitation expenses incurred from July 1, 2020 to June 30, 2026 on structures included on the National Register of Historic Places. Qualifying maximum eligible expenses are \$3.250 million. Maximum annual credits that can be claimed by a taxpayer are \$750,000. Effective July 1, 2020.

EXPENDITURES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

According to the Dept. of Culture, Recreation, and Tourism, there are 5,593 buildings listed in the National Register that are not currently located in cultural districts. Qualifying rehabilitation of these buildings would be eligible for the new provisions added by this bill. While it is speculative as to how many of these building might enter the program under the bill's provisions (all other program requirements would have to be met) and only a relatively few might do so, each one that successfully completes the program would be eligible for a 30% credit of expenses. Average qualifying expenses have been \$662,187, generating average credit of \$198,656 at the bill's 30% credit benefit rate.

The Dept. also indicates that some 427 currently pending projects could potentially qualify for the bill's increased credit benefit of 30% (versus current law 20%). Based on average qualifying expenses of \$662,187, each could potentially generate an additional \$66,219 of credit, with a maximum program cost exposure increase to the state of \$28.2 million. Some of the projects will not complete the program and some portion of their eligible expenses will have occurred prior to the effective date of this bill (July 1, 2020), and would presumably not be eligible for the extra 10% of credit. Thus, some amount materially less than the maximum exposure calculated here would likely occur.

The bill may contemplate only a single project with no more than \$3.250 million of eligible expenses occurring between July 1, 2020 and June 30, 2026. That single project would generate credit exposure to the state of \$975,000, with a maximum annual credit claim of \$750,000 (nonrefundable but transferable, and with a five year carry-forward allowed).

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}

John D. Carpenter
 Legislative Fiscal Officer