# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

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

**Date:** June 4, 2020 3:34 PM
**Author:** MAGEE
**Dept./Agy.:** CRT / Revenue
**Subject:** Commercial Historic Rehabilitation Tax Credit Extension
**Analyst:** Greg Albrecht

TAX CREDITS OR DECREASE 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 products 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 extends the program by six years, to expenses incurred before January 1, 2028.

| **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. | $0 | $0 | DECREASE | DECREASE | DECREASE | **$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** |

**EXPENDITURE EXPLANATION**

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

**REVENUE EXPLANATION**

In the absence of the bill, credit costs should decline after FY22 and beyond as current projects complete the program without new projects entering. The bill will delay for six years 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 $150 million in FY20 and $123 million in FY21.

Sometime after FY22, should no further extensions of the program occur, fiscal year costs would begin to decline as project expenditures allowed into the program under current law complete, with no additional project expenditures allowed.

Program participation data from Culture, Recreation, and Tourism indicate that some 1,335 projects have generated an estimated $834.6 million of tax credits on $3.451 billion of qualified expenditures and $4.494 billion of total expenditures (self-reported by participants) since the program's inception in 2002. The Department of Revenue reports actual tax credit realizations totaling $643 million through FY19, implying tax credits outstanding yet to be claimed could be some $192 million (credits are nonrefundable but are transferable, with a 5-year carry-forward). Current law already allows credits to be awarded for project expenditures incurred through calendar year 2021. Since the tax credits associated with these existing projects would affect FY21 and subsequent years regardless of this bill, those costs can not be attributed to the extension provided by this bill. To the extent pending projects can not complete by the end of 2021, this bill will provide additional time to complete projects, as well as allow more projects into the program through 2027. The bill likely increases state exposure starting with FY23 by allowing more tax credits to be generated and realized over an extended time period than current law would allow. No precise estimate of the annual offset of cost step-downs beyond FY22 is reliable, but the program's size and utilization suggests additional annual costs of tens of millions of dollars resulting from the bill's extension of the program.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 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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