LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7815 **DATE PREPARED:** Jan 29, 2001
BILL NUMBER: HB 2090 **BILL AMENDED:**

SUBJECT: Historic and Rehabilitated Property.

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FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill specifies that for the purposes of the assessed value deduction for rehabilitated residential property, rehabilitation means significant repairs, replacements, or improvements to an existing structure under the rules adopted by the State Board of Tax Commissioners. It changes the minimum age of a structure from 10 years to 50 years for the purpose of claiming the assessed value deduction for rehabilitated property that applies to both residential and nonresidential uses. The bill specifies the duration of the assessed value deduction for rehabilitated property that applies to both residential and nonresidential uses. It provides a credit against the adjusted gross income tax to a taxpayer who rehabilitates registered historic structures to be used as the taxpayer's residence.

Effective Date: March 1, 2001 (retroactive)

Explanation of State Expenditures: The bill would increase the number of credits that could be given so there might be an increase in the administrative expenses for the Department of Natural Resources and the Department of State Revenue.

The bill would also require the State Board of Tax Commissioners to develop rules for the rehabilitation of property deduction. The State Board of Tax Commissioners may have some increase in expenses associated with the development of the rules.

Explanation of State Revenues: Historic rehabilitation tax credits were capped at $450,000 prior to FY 1998, and was increased to $750,000 for FY 1998 and FY 1999. The cap was reduced to $450,000 beginning in FY 2000. This bill will increase the cap to $500,000 for the existing credit for FY 2002 and years thereafter. The bill also creates a new *residential* historic rehabilitation credit. The new credit would be capped at $250,000 annually beginning in FY 2002.

The current historic rehabilitation tax credit program is administered by the Department of State Revenue and the Division of Historic Preservation and Archaeology of the Department of Natural Resources (DNR). Credits are awarded to businesses spending more than $10,000 to preserve or rehabilitate historic property. Each credit granted is equal to 20% of the qualified expenditures as approved by the Division, and may be taken against the recipient's state income tax liability (including the gross income tax, adjusted gross income, or supplemental net income tax). Unused amounts of the credit are carried forward to the next tax year.

Credits approved by DNR have exceeded the cap in prior years. DNR has approved about $2 M worth of credits annually. Due to the cap, credits that are approved but not granted in the current year are carried forward to future years. Based on the current $750,000 cap, DNR has credit obligations until FY 2006. The current credit is primarily for corporations. There are about two and a half times as many individual historic sites as corporate historic sites, so it is expected that the new residential historic rehabilitation tax credit will also be approved at the maximum amount. Under this bill, it is expected that all $750,000 ($500,000 for individuals or businesses and $250,000 for individuals) for tax credits would be used each fiscal year.

The additional credits under this proposal would reduce tax receipts from gross income tax, adjusted gross income, and supplemental net income tax. Revenue from these is deposited in both the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill changes the building age requirement to qualify for a historical rehabilitation deduction from 10 years to 50 years. The age requirement was 50 years through March 1, 2000. The 10-year requirement is scheduled to take effect March 1, 2001. The provision is retroactive to March 1, 2000, and would leave the age requirement at 50 years. No data is available on the impact of changing the age requirement from 50 years to 10 years, so it is not possible to estimate the impact if the change is not made. The change could prevent the number of deductions from greatly increasing.

The portion of the bill clarifying the length of the deduction would have no fiscal impact.

State Agencies Affected: Department of Natural Resources, Department of State Revenue, State Board of Tax Commissioners.

Local Agencies Affected: County Auditors.

Information Sources: David Duvall, State Architect, Division of Historic Preservation and Archaeology, Department of Natural Resources, 317-232-1635.