COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2025-01
Bill No.: SB 639
Subject: Tax Credits; Taxation and Revenue - Income; Historic Preservation.
Type: Original
Date: March 31, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	Up to $10,640,000	$10,640,000	$10,640,000
Total Estimated Net Effect on General Revenue Fund	**Up to $10,640,000**	**$10,640,000**	**$10,640,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Natural Resources** state this proposal does not change their authority, and therefore, would not have a direct fiscal impact on their agency.

Officials from the **Department of Revenue** assume this proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** assume the reduction of historic preservation tax credits from 25 percent to 20 percent would increase future general revenues and total state revenue by an unknown amount.

Officials from the **Department of Economic Development (DED)** assume that if rehabilitation costs are the same (thus that there is no reduction in projects, but DED cannot opine as to that), and the credit percentage of 25% is reduced to 20%, the amount of credits issued, and therefore redeemed, would decrease. Current FY 2004 issuance projections are $40,379,990. This would be for $161,519,960 in rehabilitation costs. A 20% credit on the same amount of rehabilitation would be $32,303,992.

ASSUMPTION (continued)

Current redemption projections are $30,284,993. The same redemption rate applied to the lower amount of issued credits would result in $6,056,999 (($30,284,993 / $40,379,990 x $32,303,992) - $30,284,993) fewer tax credits being redeemed.

This bill also prohibits property used for residential purposes from being eligible for these tax credits after August 28, 2003. DED is not able to predict the effect the elimination of residential projects will have on current or future projects.

DED assumes it will process the same number of applications, but the amount of credits will be lower, resulting in a savings to the General Revenue Fund.

According to information provided by DED, roughly $42.7 million in historic preservation tax credits were redeemed in FY 2002. Assuming a constant amount of tax credits being issued and redeemed in the future, **Oversight** assumes this proposal would theoretically reduce this amount by 20 percent ((25-20) / 25), or $8.54 million.

Also, this proposal removes the allowance of the tax credit program to be used in rehabilitating residential property. According to a study conducted by the State Auditor's Office in 2001, roughly five percent of the credits issued were for residential properties. Therefore, **Oversight** assumes removing this option would result in a savings to the General Revenue Fund of $2.1 million ($42.7 million x 5%).

Oversight assumes the combination of the two changes made to the historic preservation tax credit program would result in a savings of $10.64 million ($8.54 million + $2.1 million) per fiscal year. This savings could be more or less depending upon utilization of the program in future years.

Oversight assumes that since the new restriction and reduction applies to tax credits issued after August 28, 2003 for expenses incurred prior to that date, that FY 2004 will realize a reduction in tax credits and an corresponding increase in tax revenue for the state. Oversight has reflected the fiscal impact on FY 2004 as a positive amount, up to $10.64 million.

This proposal could increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006

GENERAL REVENUE

Savings - Reduction of benefits from the historic preservation tax credit program	Up to $10,640,000	$10,640,000	$10,640,000
ESTIMATED NET IMPACT TO THE GENERAL REVENUE FUND	**Up to $10,640,000**	**$10,640,000**	**$10,640,000**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that utilize the historic preservation tax credit program could be impacted by this proposal.

DESCRIPTION

This proposal amends the present historic preservation tax credit to remove property used for residential purposes from the definition of an "eligible property". The proposal also limits the amount of the credit to twenty percent of the total costs and expenses of rehabilitation, down from twenty-five percent.

The provisions of the proposal are prospective and will not adversely affect any credits already issued by the Department of Economic Development.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development

RAS:LR:OD (12/02)

Department of Revenue
Department of Natural Resources
Office of Administration - Budget and Planning

Mickey Wilson

MICKEY WILSON, CPA
DIRECTOR
MARCH 31, 2003