COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0228-01
Bill No.: SB 32
Subject: Historic Preservation; Housing; Revenue Department; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: January 8, 2013

Bill Summary: This proposal modifies the low-income housing and historic preservation tax credit programs and requires any increase in revenue to be applied to a decrease in the individual income tax rate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 135.352 Low Income Housing
Officials at the **Missouri Housing Development Commission** assume this proposal provides for a decrease from the current $60 million cap in the 4% MOLIHTC starting in FY 2015 as follows:

FY 15	$15 million cap
FY 16	$10 million cap
FY 17	$ 5 million cap
FY18 and thereafter	$ - 0 -

In addition, this proposal provides for a decrease in the 9% MOLIHTC starting in FY 2015 as listed below. Currently, the 9% credit is capped by the amount of federal credit awarded to Missouri.

FY 15	$110 million cap
FY 16	$ 97 million cap
FY 17	$ 84 million cap
FY 18	$ 70 million cap
FY 19	$ 70 million cap
FY 20	$ 70 million cap

Due to the reduced cap on MOLIHTC, there will be a positive impact on General Revenue beginning in FY 2017 because of the approximately two year lag time between authorization; and the issuance and redemption of credits.

This proposal eliminates the practice known as "stacking', whereby the same development receives the MOLIHTC and the State Historic Preservation Credit. While this change will affect the total amount and type of state credit received by particular developments, it will not affect the overall amount of state tax credits authorized, issued or redeemed. Therefore, this change has no associated fiscal impact.

The proposed language prohibits the authorization of 4% MOLIHTC beginning in FY 2018 and eliminates any authorizations of the 9% MOLIHTC on or after August 28, 2019, which is outside the fiscal note period.

There is no fiscal impact associated with MOLIHTC until the tax credit is redeemed. It is impossible to predict with certainty the timing of future redemptions, especially if there is a carry

ASSUMPTION (continued)

back and carry forward provision with the state tax credit. For the purposes of estimating fiscal impact, MHDC assumes all credits are redeemed in the year of issuance.

FISCAL YEAR	MOLIHTC LONG RANGE POSITIVE IMPACT
FY 17	Unknown to $ 7,000,000
FY 18	Unknown to $15,800,000
FY 19	Unknown to $26,400,000
FY 20	Unknown to $38,900,000
FY 21	Unknown to $51,400,000
FY 22	Unknown to $63,900,000
FY 23	Unknown to $83,400,000
FY 24	Unknown to $102,900,000

The full impact of the changes in LIHTC because of the significant lag time between authorization, issuance and redemption of credits, will take place outside of the fiscal year periods associated with this Fiscal Note.

According to the Tax Credit Analysis submitted by the Missouri Housing Development Commission regarding this program, the Low Income Housing tax credit program had the following activity

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	303	212	457
Projects (#)	35	26	42
Amount Authorized	$149,068,200	$102,960,000	$171,894,310
Amount Issued	$155,703,625	$156,016,305	$164,956,766
Amount Redeemed	$142,141,458	$143,055,387	$164,208,547

Oversight assumes that a reduced program cap in FY 2015 would lead to reduced tax credits issued beginning two years later, or FY 2017.

Sections 253.550, 253.557 and 253.559 Historic Preservation
Officials at the **Department of Natural Resources** assume no significant direct fiscal impact as a result of the changes made to the structure of this credit.

Officials at the **Department of Economic Development** (**DED**) assume these changes reduce the cap of the Historic Preservation tax credit program beginning on July 1, 2014, from $140

ASSUMPTION (continued)

million to $80 million. This program is administered by DED's Division of Business and Community Services. The proposal restricts eligible costs to those costs that have been incurred and paid prior to the issuance of the tax credit. The proposal prohibits projects receiving Low Income Housing tax credits from also receiving Historic Preservation Tax Credits. The proposal provides that no more than $125,000 in tax credits would be available for non-income producing residential projects; limits the carry-back and carry-forward provisions to projects authorized after August 28, 2013; and requires DED to propose rules for the program. Finally, the proposal sunsets the Historic Preservation Tax Credit program on August 28, 2019. DED assumes a positive economic impact over $100,000 as a result of the lower cap for the program beginning in FY2015.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	219	161	178
Projects (#)	219	161	178
Amount Authorized	$99,510,175	$82,839,495	$98,591,346
Amount Issued	$107,229,218	$116,244,410	$105,272,651
Amount Redeemed	$108,064,200	$107,767,393	$133,937,747

Oversight assumes that a reduced program cap in FY 2015 would lead to reduced tax credits issued beginning two years later, or FY 2017.

Section 143.011 Reduction of Individual Tax Rate
Officials at the **University of Missouri Economic & Policy Analysis Research Center** assume they are not able to provide an estimate of the fiscal impact of this proposal due to the differential timing of the credit authorization, credit issue, and credit redemption as it pertains to carry-over and/or carry-back clauses within this and existing legislation.

Officials at the **Office of Administration - Budget and Planning** assume that beginning January 1, 2016, the Director of Revenue is to calculate the increase in revenues from the proposed changes, and beginning Jan. 1, 2017, reduce the individual income tax rate accordingly. To the extent the DOR is able to estimate the changes in revenues and estimate the adjusted tax rates, this proposal should have little net impact on General and Total State Revenues over the long term. However, to the extent the Low-Income Housing tax credit and Historic tax credit redemptions decrease in FY's 2015-2017 as a result of the reduced caps, there may be some revenue gains.

ASSUMPTION (continued)

BAP estimates that in FY 2012 net individual income taxes totaled $4,913.9 million while redemptions under these tax credits totaled $298.1 million.

Oversight notes any fiscal impact to the tax credit programs would become effective in FY 2017 or later. Accordingly, there would be no impact to individual income tax rates until after FY 2017.

Bill as a Whole
Officials at the **Office of Administration - Information Technology Services Division (OA-ITSD)** assume this proposal would require programming changes to various tax systems. The estimate for the work is $18,178 for 672 FTE hours.

Oversight assumes OA-ITSD is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD could request funding through the appropriation process.

Officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the department anticipates an unknown increase to premium tax collections due to the bill's changes. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that

ASSUMPTION (continued)

this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses may be effected to the extent the business qualifies for the tax credits affected or has their income tax liability reduced because of this proposal.

FISCAL DESCRIPTION

This act modifies the low-income housing tax credit program and the historic preservation tax credit program. The Department of Revenue is required to apply any increase in revenue generated from capping these tax credit programs to a decrease in the personal income tax rate to begin on January 1, 2017. The Department of Revenue is required to accomplish this decrease in the personal income tax rate by rule.

JH:LR:OD

FISCAL DESCRIPTION (continued)

LOW-INCOME HOUSING TAX CREDITS - The act establishes a one hundred ten million dollar cap for authorizations of 9% low-income housing tax credits for FY 2015. For each subsequent fiscal year from FY 2016 to FY 2018 the amount of 9% low-income housing tax credits which may be authorized is gradually reduced such that beginning FY 2018, no more than seventy million dollars in 9% low-income housing tax credits may be authorized each fiscal year.

Authorizations of 4% low-income housing tax credits are capped at fifteen million dollars for FY 2015. For each subsequent fiscal year the amount of 4% low-income housing tax credits which may be authorized is reduced by five million dollars. After June 30, 2017, no 4% low-income housing tax credits may be authorized.

The act prohibits the authorization of low-income housing tax credits after August 28, 2019. The stacking of state 9% low-income housing tax credits with state historic preservation tax credits for the same project is prohibited. The carry-back for low-income housing tax credits is reduced from three years to two years.

HISTORIC PRESERVATION TAX CREDITS - Under current law, the Department of Economic Development is prohibited from issuing more than one hundred forty million dollars in historic preservation tax credits in any fiscal year for projects which will receive more than two hundred and seventy-five thousand dollars in tax credits. Beginning fiscal year 2015, and each fiscal year thereafter, this act would prohibit the Department of Economic Development from approving more than eighty million dollars in historic preservation tax credits increased by the amount of any recisions of approved applications for tax such credits. Projects which would receive less than two hundred seventy-five thousand dollars in tax credits will be subject to a ten million dollar fiscal year cap.

NON-INCOME PRODUCING RESIDENTIAL PROJECTS- The act prohibits the department from issuing more than one hundred twenty-five thousand dollars in historic preservation tax credits per project for non-income producing residential rehabilitation projects.

TRANSITION RULES- Applicants for projects that, as August 28, 2013, have: received approval from the Department of Economic Development; incurred certain levels of expenses; or received certification from the state historical preservation officer will not be subject to the new limitations on tax credit issuance, but will be subject to the current law limitations on tax credit issuance.

JH:LR:OD

FISCAL DESCRIPTION (continued)

STACKING - The act also prohibits the stacking of state historic preservation tax credits with state 9% low-income housing tax credits. Historic preservation tax credits will now be capable of being carried back one year or forward five years.

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
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Missouri Housing Development Commission
Office of Administration
  Budget and Planning
  Information Technology Services Division
Office of the Secretary of State
University of Missouri- Economic & Policy Analysis Research Center

Ross Strope
Acting Director
January 8, 2013

JH:LR:OD