DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement

1. Patron Mark L. Cole

2. Bill Number HB 1111
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Tax Credit: Expansion of the Historic Rehabilitation Tax Credit

5. Summary/Purpose:

This bill would expand eligibility for the historic rehabilitation tax credit by modifying the definition of "material rehabilitation." Under this bill, the cost of improvements or reconstruction for an owner-occupied building of at least $10,000 of rehabilitation expenses would be considered "material rehabilitation."

Currently, the costs of improvements or reconstruction for an owner-occupied building must amount to at least 25% of the assessed value of the building for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses.

This bill would be effective for taxable years beginning on and after January 1, 2008.

6. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

7. Budget amendment necessary: Yes. (See Line 8.)
Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs - TAX

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Administrative Costs – DHR

The Department of Historic Resources ("DHR") has informed TAX that this bill would likely increase administrative costs for that agency. The new threshold amount would represent a significant decrease in the amount of expenditures necessary that are necessary to qualify for this credit. As a result, DHR believes that this change would move the program away from fewer, but more substantial, rehabilitation projects towards a larger number of small maintenance projects.

Revenue Impact

This bill would result in an unknown negative revenue impact. Because the bill significantly reduces the threshold for owner-occupied properties to qualify for the historic rehabilitation credit, it will likely significantly increase the number of applications for the credit. The individual impact of these new applications is likely to be small, with a minimum credit per project of $2,500. The aggregate impact will depend on the number of new applications and will likely be significant.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Historic Resources

10. Technical amendment necessary: No.

11. Other comments:

Historic Rehabilitation Tax Credit

The Historic Rehabilitation Tax Credit provides a tax credit for individuals, trusts or estates, or corporations that incur eligible expenses in the rehabilitation of a certified historic structure. The amount of the Credit is currently 25% of the eligible expenses.

In order to claim this credit, the taxpayer must apply to the Department of Historic Resources ("DHR"), which is responsible for determining the amount of eligible rehabilitation expenses. "Eligible rehabilitation expenses" are defined as the expenses incurred in the material rehabilitation of a certified historic structure and added to the property's capital account.

"Material rehabilitation" is defined as improvements or reconstruction consistent with "The Secretary of the Interior's Standards for Rehabilitation," the cost of which amounts to at least 50% of the assessed value of such building for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses. If the building is owner-occupied, however, the cost is only required to amount to at least 25% of the assessed value of such building for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses.

Proposal

This bill would expand eligibility for the historic rehabilitation tax credit by modifying the definition of “material rehabilitation.” The definition would be modified so that, for the purposes of qualifying for the credit, the cost of improvements or reconstruction for an owner-occupied building would be required to amount to at least $10,000 for rehabilitation expenses.

Such a change would be the equivalent under prior law of requiring that an owner-occupied building had an assessed value of $40,000 for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses.

This bill would be effective for taxable years beginning on and after January 1, 2008.

cc : Secretary of Finance

Date: 1/20/2008 AMS
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