

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** William M. Stanley, Jr.

3. **Committee** Senate Finance

4. **Title** Income tax; industrial building rehabilitation tax credit.

2. **Bill Number** SB 68

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create an income tax credit for both individuals and corporations that rehabilitate or retrofit existing industrial buildings that are at least 25 years old. The credit would be equal to the entire amount paid or incurred for the rehabilitation, but could not exceed \$100,000. In order to qualify, the business would have to move operations into a rehabilitated industrial building and be new to the locality in which the industrial building is located.

The bill would be effective for taxable years beginning on and after January 1, 2013.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not Available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") 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, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department 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, the Department will identify the costs at that time.

Revenue Impact

The negative impact on General Fund revenue is not known, but potentially, it could be significant. The renewal and refurbishment of a manufacturing building could range from a deep clean-up to full reconstruction. No data is available on the number of businesses that intend to rehabilitate and locate their business in an industrial building that is at least 25 years old. Further, the average cost to retrofit or rehabilitate an industrial building at least 25 years old is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The Historic Rehabilitation Tax Credit allows a credit for 25 percent of eligible expenses for rehabilitating a certified historic structure. The credit is available against the individual income tax, fiduciary income tax, corporate income tax, bank franchise tax, state insurance license tax, or state license tax on public service corporations. Upon application by a taxpayer, the Virginia Department of Historic Resources determines the amount of eligible rehabilitation expenses and issues a certificate to the taxpayer. Generally, the rehabilitation work for a project must meet the Secretary of the Interior's Standards for Rehabilitation. If the project does not meet these standards, no part of the credit may be claimed. If the work is certified as meeting these standards, the credit is based on all eligible expenses.

Under Virginia's Enterprise Zone Program, the Department of Housing and Community Development administers the Real Property Investment Grant program for qualified real property investments made by any individual or entity to a commercial, industrial, or mixed use building or facility in a designated Virginia Enterprise Zone. A business or individual investing over \$100,000 in a rehabilitation project may qualify for a grant of up to 20% of expenditures over the \$100,000 threshold. For new construction projects, a business or individual must invest at least \$500,000 before the 20% grant becomes effective. Grants are capped at \$100,000 per building or facility for investments less than \$5 million, and \$200,000 for investments of \$5 million or more.

Proposal

Under this bill, a taxpayer that establishes a new business within a Virginia locality in an existing industrial building that is least 25 years old would be eligible for either an individual or corporate income tax credit equal to 100% of the amount paid or incurred by such taxpayer during the taxable year for rehabilitating or retrofitting the industrial building. The total amount of the credit could not exceed \$100,000.

The amount of credit allowed pursuant to this section shall not exceed the tax imposed for such taxable year. A taxpayer would be able to carry over any unused credit for up to three taxable years.

The bill would prohibit a taxpayer from claiming this credit if it is claiming or has claimed a Historic Rehabilitation Tax Credit for the same rehabilitation or retrofitting expenses.

The bill would be effective for taxable years beginning on and after January 1, 2013.

cc : Secretary of Finance

Date: 1/23/2012 KLC
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