

DEPARTMENT OF TAXATION

2019 Fiscal Impact Statement

1. **Patron** Robert S. Bloxom, Jr.

2. **Bill Number** HB 2705

3. **Committee** Senate Finance

House of Origin:
 Introduced
 Substitute
 Engrossed

4. **Title** Historic Rehabilitation Tax Credit; Extend \$5
Million Limitation on Credits Claimed Per Taxable
Year

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

5. Summary/Purpose:

This bill would permanently extend the limitation that prohibits a taxpayer from claiming Historic Rehabilitation Tax Credits in excess of \$5 million per taxable year.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

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

7. **No Fiscal Impact:** (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("the Department") and the Department of Historic Resources consider implementation of this bill as routine, and do not require additional funding.

Revenue Impact

Because the extension of the limitation on the amount of Historic Rehabilitation Tax Credits that may be claimed per taxable year is assumed in the Introduced Executive Budget, this bill would have no impact on General Fund revenues.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Historic Resources

10. **Technical amendment necessary:** No.

11. Other comments:

Federal Historic Preservation Tax Credit

Under federal law, an investment tax credit is allowed to taxpayers for the rehabilitation of historic income-producing properties. The federal credit is equal to 20 percent of the cost of rehabilitating

or preserving commercial, agricultural, industrial, or rental residential buildings that are certified as historic. The Historic Preservation Tax Credit is intended to reward private investors for investing in rehabilitating historic properties, such as abandoned or under-used schools, warehouses, factories, churches, retail stores, apartments, hotels, houses, and offices.

Virginia Historic Rehabilitation Tax Credit

Under Virginia law, a taxpayer with eligible expenses in the rehabilitation of a certified historic structure is entitled to claim a tax credit. The credit is equal to 25 percent of rehabilitation expenses for projects completed in 2000 and thereafter. To qualify for the tax credit, the cost of the rehabilitation must equal to at least 50 percent (or 25 percent if the building is owner occupied) of the assessed value of the building for local real estate tax purposes prior to the rehabilitation. The rehabilitation work must be certified by the Department of Historic Resources (“DHR”) and be consistent with the Secretary of the Interior's standards for rehabilitation. The allowable tax credit may not exceed a taxpayer's tax liability. Any unused credits may be carried forward for up to ten years. Currently, there is no per project limitation or state-wide annual cap on the amount of tax credits that may be issued or claimed.

As originally enacted during the 1996 Session, the credit could only be claimed against individual, fiduciary, and corporate income taxes. During the 1998 Session, legislation was enacted to expand the credit to apply against the bank franchise tax, the insurance premium license tax, and the tax on public service corporations. Since Fiscal Year 2008, the amounts of Historic Rehabilitation Tax Credits claimed against each tax are as follows:

Fiscal Year	Income Tax	Bank Franchise Tax	Insurance Premiums License Tax	Total
2008	\$39.81 million	\$0.13 million	\$41.42 million	\$81.36 million
2009	\$62.77 million	\$0.15 million	\$45.25 million	\$108.17 million
2010	\$64.62 million	\$1.18 million	\$48.93 million	\$114.72 million
2011	\$46.80 million	\$1.53 million	\$34.84 million	\$83.17 million
2012	\$59.22 million	\$4.96 million	\$30.33 million	\$94.50 million
2013	\$23.53 million	\$1.66 million	\$42.38 million	\$67.57 million
2014	\$27.10 million	\$0.48 million	\$43.27 million	\$70.86 million
2015	\$43.80 million	\$2.77 million	\$51.42 million	\$98.00 million
2016	\$47.98 million	\$4.66 million	\$45.43 million	\$98.07 million
2017	\$38.09 million	\$5.82 million	\$43.85 million	\$87.76 million
2018 (preliminary)	\$28.79 million	\$6.33 million	\$34.85 million	\$69.96 million

During the 2017 Session, the General Assembly enacted legislation that limited the amount of Historic Rehabilitation Tax Credits that may be claimed by each taxpayer to \$5 million, including any amounts carried over from prior taxable years. Under existing statute, this limitation currently applies for taxable years beginning on and after January 1, 2017, but before January 1, 2019. However, Item 3-5.18 of the 2016-2018 Appropriation Act applies this limitation indefinitely. Similar language is included in the Governor's Introduced Executive Budget. Accordingly, this bill would codify the language currently set forth in the budget.

Proposed Legislation

This bill would permanently extend the limitation that prohibits a taxpayer from claiming Historic Rehabilitation Tax Credits in excess of \$5 million per taxable year. This would make the statutory language consistent with existing budget language.

If enacted during the 2019 Regular Session of the General Assembly, this bill would become effective July 1, 2019.

cc : Secretary of Finance

Date: 2/15/2019 JLOF
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