

DEPARTMENT OF TAXATION

2020 Fiscal Impact Statement

1. **Patron** Alfonso H. Lopez

3. **Committee** House Finance

4. **Title** Historic Rehabilitation Tax Credit; Increase
Maximum Amount of Credit

2. **Bill Number** HB 1156

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the maximum amount of Historic Rehabilitation Tax Credits that a taxpayer may claim in any taxable year, including amounts carried over from prior taxable years, from \$5 million to \$10 million.

This bill would be effective for taxable years beginning on and after January 1, 2020.

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|---------------------------|-----------------------|--------------------|
| 2020-21 | (\$ 5 million) | GF |
| 2021-22 | (\$ 5 million) | GF |
| 2022-23 | (\$ 5 million) | GF |
| 2013-24 | (\$ 5 million) | GF |
| 2024-25 | (\$ 5 million) | GF |
| 2025-26 | (\$ 5 million) | GF |

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

Based on historical data, this bill would have a minimum annual negative General Fund revenue impact of \$5 million beginning in Fiscal Year 2021. During the 2017 Session, the Department estimated that imposing the \$5 million limitation would result in revenue savings of \$9.9 million per fiscal year.

9. Specific agency or political subdivisions affected:

Department of Taxation

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 Credit claimed against each tax are as follows (in millions):

| Fiscal Year | Income Tax | Bank Franchise Tax | Insurance Premiums License Tax | Total |
|--------------------|-------------------|---------------------------|---------------------------------------|----------------|
| 2008 | \$39.8 | \$0.1 | \$41.4 | \$81.4 |
| 2009 | \$62.8 | \$0.2 | \$45.3 | \$108.2 |
| 2010 | \$64.6 | \$1.2 | \$48.9 | \$114.7 |
| 2011 | \$46.8 | \$1.5 | \$34.8 | \$83.2 |
| 2012 | \$59.2 | \$5.0 | \$30.3 | \$94.5 |
| 2013 | \$23.5 | \$1.7 | \$42.4 | \$67.6 |
| 2014 | \$27.1 | \$0.5 | \$43.3 | \$70.9 |
| 2015 | \$43.8 | \$2.8 | \$51.4 | \$98.0 |
| 2016 | \$48.0 | \$4.7 | \$45.4 | \$98.1 |
| 2017 | \$38.1 | \$5.8 | \$43.9 | \$87.8 |
| 2018 | \$28.8 | \$6.3 | \$34.9 | \$70.0 |
| 2019 (preliminary) | \$37.3 | \$2.1 | \$37.2 | \$76.6 |

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. This limitation originally applied for taxable years beginning on and after January 1, 2017, but before January 1, 2019. Legislation enacted during the 2019 Session permanently extended the limitation.

Proposed Legislation

This bill would increase the maximum amount of Historic Rehabilitation Tax Credits that a taxpayer may claim in any taxable year, including amounts carried over from prior taxable years, from \$5 million to \$10 million.

This bill would be effective for taxable years beginning on and after January 1, 2020.

cc : Secretary of Finance

Date: 1/14/2020 JLOF
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