

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** Scott A. Surovell

3. **Committee** Senate Finance and Appropriations

4. **Title** Historic Rehabilitation Tax Credit; Increase
Per Taxpayer Limitation

2. **Bill Number** SB 1066

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the maximum amount of the Historic Rehabilitation Tax Credit that a taxpayer may claim per taxable year from \$5 million to \$10 million. For expenses incurred for the rehabilitation of a certified historic structure in a locality that has a designated enterprise zone, the taxpayer would be permitted to claim up to an additional \$10 million.

This bill would be effective for taxable years beginning on and after January 1, 2023.

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

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

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2024. This legislation would increase the amount of the Historic Rehabilitation Tax Credit a taxpayer may claim per taxable year from \$5 million to \$10 million. Based on Fiscal Year 2021 and 2022 data, such a change could have an impact ranging from approximately \$5 million to \$15 million annually. However, the number of taxpayers impacted by the current \$5 million cap varies each year, and it is uncertain to what extent taxpayers would have enough available credits for Taxable Year 2023 and thereafter or carryover credits from a previous year to claim credits in excess of \$5 million. In addition, it is uncertain how many taxpayers would qualify for the additional \$10 million in credits for expenses incurred for the rehabilitation of a certified historic structure in a locality that has a designated enterprise zone. This provision of the bill could further increase the revenue loss by an additional unknown amount.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Historic Resources

10. Technical amendment necessary: No.

11. Other comments:

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.

During the 2017 Session, the General Assembly enacted legislation that limited the amount of the Historic Rehabilitation Tax Credit that may be claimed by each taxpayer to \$5 million, including any amounts carried over from prior taxable years. This limitation was permanently extended during the 2019 Session.

Proposed Legislation

This bill would increase the maximum amount of the Historic Rehabilitation Tax Credit that a taxpayer may claim per taxable year from \$5 million to \$10 million. For expenses incurred for the rehabilitation of a certified historic structure in a locality that has a designated enterprise zone, the taxpayer may claim up to an additional \$10 million.

This bill would be effective for taxable years beginning on and after January 1, 2023.

Similar Legislation

House Bill 1668 is identical to this bill.

House Bill 2064 would increase the maximum amount of the Historic Rehabilitation Tax Credit that a taxpayer may claim per taxable year from \$5 million to \$10 million.

House Bill 2109 would extend the Historic Rehabilitation Tax Credit to include improvements to or reconstruction of a historic school building.

cc : Secretary of Finance

Date: 1/22/2023 JLOF
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