

DEPARTMENT OF TAXATION

2024 Fiscal Impact Statement

1. **Patron** Angelia Williams Graves
3. **Committee** Senate Finance and Appropriations
4. **Title** Income Tax Credit; Historic Rehabilitation Tax Credit

2. **Bill Number** SB 556
- 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, 2024.

6. **Budget amendment necessary:** No.
7. **Fiscal Impact Estimates are:** Preliminary. (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 2025. Based on data from prior years, 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 per taxpayer cap may vary each year, and it is uncertain to what extent taxpayers would have enough available credits or carryover credits from a previous year to claim credits in excess of \$5 million per taxpayer cap.

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 unknown negative General Fund revenue impact.

Although the Historic Rehabilitation Tax Credit is not subject to a program cap, taxpayers may only receive tax credits for DHR approved projects. As a result, increasing the annual per taxpayer cap on the amount of tax credits a taxpayer can claim from \$5 million to \$10 million (or \$20 million for projects in certain localities) would not immediately change the total number of credits available. The long-term revenue impact of this bill would depend on additional projects are authorized in response to this bill:

- If no additional projects are authorized in response to this bill, the negative revenue impact of increasing the annual per taxpayer cap would be short-term and directly offset by a corresponding decrease in credits claimed in future years.
- However, if additional projects are authorized in response to this bill, the negative revenue impact could be ongoing.

Because it is unknown if any additional future projects may be authorized due to an increase in demand for Historic Rehabilitation Tax Credits resulting from the proposed higher annual per taxpayer cap, it is unknown whether the estimated \$5 million to \$15 million a year negative revenue impact of this bill would be short-term or ongoing.

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 nonrefundable 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 would be permitted to claim up to an additional \$10 million. According to the Department of Housing and Community Development website there are currently 65 localities that have an enterprise zone, and projects located in these localities would be eligible for the additional \$10 million per year in Historic Rehabilitation Tax Credits permitted to be claimed. These localities include:

Accomack	Alleghany	Bedford	Bristol	Brunswick
Carroll	Charlotte	Chilhowie	City of Franklin	City of Richmond
City of Roanoke	Clifton Forge	Clintwood	Covington	Danville
Dickenson	Emporia	Galax	Glade Spring	Grayson
Greensville	Halifax	Hampton	Haysi	Henrico
Henry	Hopewell	Isle of Wight	Kenbridge	Kilmarnock
Lancaster	Lunenburg	Lynchburg	Martinsville	Mecklenburg
Newport News	Norfolk	Northampton	Northumberland	Page
Patrick	Petersburg	Pittsylvania	Portsmouth	Prince Edward
Prince George	Pulaski	Radford	Richmond	Saltville
Scott	Smyth	South Boston	Southampton	Staunton
Stuart	Tazewell	Victoria	Warsaw	Washington
Waynesboro	Westmoreland	Winchester	Wise	Wythe

This bill would be effective for taxable years beginning on and after January 1, 2024.

Similar Legislation

HB 960 is substantially similar to this bill, but does not include the additional \$10 million for projects in localities containing an enterprise zone.

cc : Secretary of Finance

Date: 1/26/2024 SJH
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