DEPARTMENT OF REVENUE

Residential Rental Projects
Aggregate Bond Limitation

April 8, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 4234 (Rehrauer) / S.F. 4400 (Mohamed)

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
	(000's)			
General Fund	$0	$0	$0	$0

Effective January 1, 2027.

EXPLANATION OF THE BILL

Current Law: Real estate developers may apply to the state for tax-exempt private activity bonds to finance qualifying residential rental projects. If a certain percentage of the project is financed with tax-exempt bonds, it is eligible for the federal low-income housing tax credit (LIHTC). The total amount of credits available to each state is limited by federal law.

P.L. 119-21 (enacted July 4, 2025) increased the allocation of LIHTCs available to each state and lowered the tax-exempt financing requirement for the LIHTC. Projects placed in service after 2025 are eligible for the LIHTC if at least 25% rather than 50% of the project is financed with tax-exempt private activity bonds.

Under state law, the amount of tax-exempt private activity bonds that may be issued for a project is limited to 55% of the reasonably expected aggregate basis of the residential rental project and the land on which it is located.

Proposed Law: The bill would reduce the aggregate bond limitation to the greater of:

1) 30% of the reasonably expected aggregate basis of a residential rental project and the land on which it is located; or
2) The maximum supportable permanent amortizing debt, up to 40% of the expected aggregate basis of the project and the land on which it is located.

REVENUE ANALYSIS DETAIL

- The bill would have no direct impact on state or local tax revenue. It would limit the amount of bonds that could be issued for a given project, potentially freeing up bonds for additional projects.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses