DEPARTMENT OF REVENUE

CORPORATE FRANCISE TAX
INDIVIDUAL INCOME TAX
INSURNCE PREMIUMS TAX
Historic Rehabilitation Credit

March 1, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3688 (Youakim)

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
General Fund	$0	($31,800)	($14,600)	($19,700)

Effective the day following enactment.

EXPLANATION OF THE BILL

Current Law: The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). The first requirement to receive the state tax credit is that the taxpayer must qualify for the federal tax credit. As with the federal credit, the Minnesota credit is spread over five years in a series of five installments.

Under the sunset provision in current law, the State Historic Preservation Office (SHPO) cannot allocate credits after June 30, 2022. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2025. After a project is completed and placed in service, the final step is to issue tax credit certificates. Taxpayers use tax credit certificates to claim the tax credit.

Proposed Law: The bill allows projects to received payments in one installment instead of five payments over five years. The bill affects projects placed in service after June 30, 2022.

The bill also extends the sunset provision in current law. Under the new sunset provision, the authority to allocate credits expires after June 30, 2030. Projects allocated credits prior to the revised date can receive tax credit certificates through fiscal year 2033. The bill is effective the day following enactment. It is assumed that the day following enactment would be before June 30, 2022.

REVENUE ANALYSIS DETAIL

- The State Historic Preservation Office (SHPO) and Minnesota Management and Budget (MMB) provided data on the projected amounts of historic rehabilitation credits and grants in lieu of credit for fiscal years 2022 -2025. For each fiscal year the payments were sorted into one of six categories.
- A 2019 law change required the credits to be paid out in five payments instead of one payment. The full transition to this method of payout is not complete.
- The amount of credit payments for two categories are not changed by the bill.
- The first category not changed by the bill is projects eligible to receive one full payment instead of five payments. A 2019 law change allows projects to qualify for one full payment if the project received an allocation certificate (preliminary approval) before January 1, 2018.

REVENUE ANALYSIS DETAIL (Cont.)

- As a result of transition provision in the 2019 law change, 42% of the total payout during the fiscal years 2022 – 2025 remains in the form of one full payment.
- The second category includes all projects receiving five payments under the 2019 law change. Projects under the five-payment method include those projects scheduled to receive a second installment payment in fiscal year 2022. All of these projects have a placed-in-service date before July 1, 2022. Payments associated with these projects are schedule to have their third through fifth installments in fiscal years 2023-2025. None of these payments would be changed by the bill.
- It is assumed that all projects that may have been subject to the five-payment payout method due to a projected placed in-service date during fiscal year 2022 will have the ability to shift their placed in-service date to fiscal year 2023. When the placed-in-service date is shifted, there is one full payment instead of a series of five payments.
- It is also assumed that all projected first installment payments currently scheduled during fiscal year 2023 will have their placed-in-service dates delay until after June 30, 2022, thus making them eligible for one full payment instead of a series of five payments.
- Beginning in fiscal year 2023, there is an offsetting revenue gain from eliminating partial payments that are scheduled to be made under current law. The offsetting revenue gain from eliminating partial payments starts at $4.3 million in fiscal year 2023 and increases to $15.2 million in fiscal year 2025.
- Data provided by SHPO and MMB show no scheduled first installment payments during fiscal year 2025.
- With the extension of the sunset provision, this estimate assumes an additional $35 million of credits will be paid out in fiscal year 2025, based on the average payout during fiscal years 2013-2020. Those credits would be in one full payment.
- The long-run impact of the bill is estimated at $35 million per fiscal year.
- The estimate includes payouts associated with grants in lieu of credits. Grants in lieu of credit are approximately 5% of the total revenue change.
- The revenue loss of changing only the sunset provision and keeping the five-installment payout in current law produces a revenue loss of -$6.7 million in fiscal year 2023. The revenue loss increases to -$12.6 million in fiscal year 2024 and to -$19.6 million in fiscal year 2025.
- Over the long term, the revenue loss is the same whether there is one payment or five payments. However, reverting to the one-time credit increases the short-term revenue loss because the full credit will be paid immediately rather than being spread over five years.

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

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