

HOUSE RESEARCH

Bill Summary

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Subject: State Low Income Housing Tax Credit

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Overview

This bill would create a state low-income housing tax credit in the same amount as the federal low-income housing tax credit allocated to the state of Minnesota. The credit would allow investors in qualifying low-income housing to claim part of that investment as a credit against their Minnesota tax obligations. The state criteria for eligible projects would be the same as the federal criteria, with the additional requirement that the housing be located in Minnesota. (See the end of this bill summary for additional background on rent limits in tax credit projects.)

Section

1 Low-income housing tax credit.

Subd. 1. Credit allowed. Establishes a tax credit for Minnesota taxpayers investing in Minnesota low-income housing. Provides that the amount of the state credit is equal to the amount of the federal low-income housing tax credit received for the project.

Subd. 2. Federal law applicable. Provides for the state of Minnesota to use the federal guidelines for calculating the amount an investor may claim as a state low-income housing tax credit. Provides for the state to use federal guidelines for determining an eligible low-income housing project and for recapturing state tax credit funds for projects that violate tax credit requirements.

Subd. 3. Carryover; eligibility. Provides that credits exceeding a taxpayer's liability for one year may be carried over to subsequent years until exhausted. Requires a taxpayer to file a claim for a credit within 12 months after the end of the taxable year for which the credit may be claimed.

Subd. 4. Transfer of credits. Allows a taxpayer to transfer, sell, or assign all or any portion of their tax credits to another taxpayer who is eligible for the credit. Requires the owner or transferee making the transfer to provide the commissioner of revenue with a statement and appropriate information describing the transfer so that the credit can be properly allocated.

2 Effective date. Provides that the bill will be effective for taxable years beginning after December 31, 1999, and applicable to projects allocated credits after December 31, 1999.

Background on the federal tax credit: For a project to qualify for the low-income housing tax credit, a minimum number of units must be occupied by low-income tenants and rents must be restricted. The credit only applies to the units that are set aside for low-income tenants. The income and rent limits can be met by satisfying one of two tests:

40 - 60 test. This test requires 40 percent of the units to be occupied by individuals with incomes at or below 60 percent of the area median income.

20 - 50 test. This test requires 20 percent of the units to be occupied by individuals with incomes at or below 50 percent of the area median income.

The area median income for 1998 was \$60,800 in the metropolitan area. 60 percent of the area median income would be as follows for families of different sizes:

1 person

\$25,550

2 people

\$29,200

3 people

\$32,850

4 people

\$36,500

Rents would be limited to 30 percent of the income limit for the size of family presumed to occupy the unit. Studios and efficiencies are assumed to accommodate one person, while in other cases 1.5 individuals per unit is assumed. Rent limits for tax credit projects would be as follows:

Studio

\$639

1 bedroom

\$684

2 bedroom

\$821

3 bedroom

\$949