

HOUSE RESEARCH

Bill Summary

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Overview

This bill creates a workforce housing tax credit and allocates \$45 million of tax credit authority for investors in qualifying housing projects in Greater Minnesota. These are generally housing projects with at least three rental units whose tenants are not subject to income limits. Credits would be allocated to investors in qualifying projects by the commissioner of the Department of Employment and Economic Development (DEED).

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1 Workforce housing tax credit. Creates a workforce housing tax credit for investors in market rate, rental housing projects in Greater Minnesota. The tax credit applies to the individual income tax and corporate franchise tax; it equals 40 percent of the qualifying investment in the project up to a per-investor maximum of \$1 million; a \$2.5 million investment would result in the maximum credit of \$1 million. The credit applies in five tax years (2017 – 2021) and is subject to an overall limit of \$45 million for those years. The credit is not refundable and cannot be carried over, but is fully transferrable (saleable) to other taxpayers.

Definitions. Defines the following key terms.

- **Eligible project area** (i.e., places where rental housing can be built and claim the credit) must be located in:
 1. a census block with a population density of over 200 people per square mile;

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2. either a Greater Minnesota city with a population of more than 1,000 or in Cook County;
 3. an area, consisting of any city within 15 miles of the project, with a rental housing vacancy rate of four percent or less for two out of the last five years; and
 4. a city in which fewer than four rental housing units for each 1000 residents were constructed in the last ten years without governmental assistance other than tax increment financing.
- **Market rate residential rental properties** exclude housing whose financing restricts the income of tenants under either federal or state law or that were constructed with federal or state disaster assistance.
 - **Qualified investment** means cash or the fair market value of land, securities or ownership interests in business entities contributed to the project.
 - **Qualified project investor** is a taxpayer who receives a credit certificate from the commissioner of DEED under the application process outlined below.
 - **Qualifying workforce housing project** must:
 1. consist of market rate rental housing of three or more units;
 2. have a per-unit construction cost of at least \$75,000 but no more than \$250,000;
 3. be located in an eligible project area (see definition above);
 4. be more than one-half financed with private, local, or federal moneys; and
 5. receive designation under the DEED application process outlined below.

Credit terms. Allows a credit equal to 40 percent of the investor's "qualified investment" up to a maximum credit of \$1 million, which would result from a \$2.5 million investment. One project may, however, receive more than \$1 million in credits, since that limits applies to investors and projects may have multiple investors. No one project may receive more than 40 percent of the total tax credits authorized. (Bill is unclear whether this limit applies to the annual or the total credit allocation.) The credit is allowed in the tax year in which the project receives its certificate of occupancy. The credit is limited to tax liability and cannot be carried over, but it can be transferred (i.e., sold) to other taxpayers. DEED may revoke tax credits and require them to be repaid, if it determines the investor or the project does not qualify for the tax credit.

Limits on the amount of tax credit. Allocates \$15 million in tax credits for tax year 2015 and \$30 million per year for tax years 2018 through 2021.

Application and tax credit award process. Establishes a first-come-first-served application process for DEED to award tax credit certificates to investors, so that the dollar limits under the credit are not exceeded in any tax year. DEED has 15 days to approve or deny applications. Although all qualifying applications are to be approved, DEED can reject applications if the commissioner determines "the investment is circumventing the spirit of the law or where little or no economic growth would occur as a result of the investment." If

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more applications are received than credit authority is available, the amounts are pro rated to applicants on the day the dollar limit for the year was reached.

Reporting requirement. Requires DEED to make an annual report to the legislature on the use of the tax credits and on the general availability of workforce housing in Greater Minnesota. The first report would be due on March 15, 2018.

- 2 Workforce housing tax credit.** Amends the income and corporate franchise tax chapter of statutes to allow a credit equal to the amount DEED certifies under section 1.