File Number: H.F. 1020 **Date:** March 9, 2017
Version: The delete everything amendment (H1020DE3)

Authors: Hamilton and others

Subject: Workforce housing tax credit

Analyst: Nina Manzi, 651-296-5204
Joel Michael, joel.michael@house.mn

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd/.

Overview

This bill creates a refundable workforce housing tax credit and allocates $40 million of tax credit authority over six years 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).

Section

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. Multiple investors, however, may qualify for credits for investments in a single project. The credit applies in six tax years (2018 to 2023) and is subject to an overall limit of $40 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:

Section

1. an area outside the seven-county metro area that does not require extension of public infrastructure;
2. a city with at least 500 jobs, as measured in the most recent quarterly census of employment and wages, or in Cook County; and
3. an area, including any city or town 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.

- **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, state, or local flood recovery assistance.
- **Qualified investment** means contributions to the project in the form of cash or the fair market value of land, securities, or ownership interests in business entities.
- **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, excluding site preparation costs, 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.
- **Workforce housing undersupply ratio** equals the number of full-time jobs in the area in which the rental vacancy test applies divided by the number of people over age 16 who live and work in that area.

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 limit applies to investors and projects may have multiple investors. No one project may receive more than $2.8 million in credits. The credit is allowed in the tax year in which the project receives its certificate of occupancy. If projects do not have units certified for occupancy within two years of issuance of credit certificates, the credits are cancelled. The credit 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. Credits may be revoked if the commissioner discovers that a project did not meet eligibility requirements after certificates were issued.

Limits on the amount of tax credit. Allocates $40 million in tax credits for tax years 2018 through 2023; $5 million in tax year 2018 and $7 million per year for the next five years. Unused amounts from each year carryover to the next.

Section

Application and tax credit award process. Requires the commissioner to give preference to applications with the highest Workforce Housing Undersupply Ratio. DEED has 15 days to approve or deny applications. 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."

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 is due on March 15, 2019.

2 **Credit allowed.** Amends the income tax statute to provide that:

- the credit under section 1 reduces income or corporate franchise tax;
- pass-through entities (S corporations and partnerships) pass the credit through to their members as provided in the organization documents;
- the credit is refundable;
- although DEED issues the credit certificates, the commissioner of revenue retains authority to audit compliance with the credit requirements; and
- an appropriation to the commissioner of revenue to pay any refunds generated by the credit.

Effective date: Tax years 2018 through 2023