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Overview

This bill creates a refundable workforce housing tax credit and allocates $40 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. Multiple investors, however, may qualify for credits for investments in a single project. The credit applies in six tax years (2018 – 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:

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1. either in a census block with a population density of over 200 people per square mile or in Cook County;
2. a Greater Minnesota city with at least 500 jobs, as measured in the most recent quarterly census of employment and wages; and
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.

- **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 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.
- **Workforce housing undersupply ratio** equals the number of full-time jobs in an eligible project area divided by the number of people over age 16 who live and work in the 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 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 limit or the total credit allocation.) The credit is allowed in the tax year in which the project receives its certificate of occupancy. 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.

Limits on the amount of tax credit. Allocates $40 million in tax credits for tax years 2018 through 2023. This limit appears intended to be a per year limit (given the language that says unused amounts from each year carryover to the next), but it is expressed as a total limit on credits for all six tax years.

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

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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 would be due on March 15, 2019.

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

- The credit allowed under section 1 reduces income or corporate franchise tax.
- That pass-through entities (S corporations and partnerships) pass the credit through to their members in proportion to their shares of the entity's income.
- The credit is refundable.
- An appropriation to the commissioner of revenue to pay any refunds generated by the credit.

Effective date: Tax years 2018 through 2023