

Fiscal Estimate Narratives

DOR 3/7/2013

LRB Number	13-1274/1	Introduction Number	AB-0147	Estimate Type	Original
Description Increasing the amount of the supplement to the federal historic rehabilitation tax credit					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, Wisconsin provides a nonrefundable income and franchise tax credit equal to 5% of qualified expenditures to substantially rehabilitate certified historic buildings for use in a trade or business. The credit supplements an existing federal credit equal to 20% of qualified rehabilitation expenditures, defined under sec. 48 (g) of the Internal Revenue Code. The state credit applies only to property located in Wisconsin. The rehabilitation work must meet historic preservation standards and the expenditures must exceed the taxpayer's adjusted basis in the building. Unused amounts of the credit may be carried forward for up to 15 years.

For rehabilitation projects undertaken by a partnership, tax-option corporation or limited liability company (LLC), the credit is passed through to the individual partners, shareholders or members in proportion to their ownership interest in the partnership, corporation or LLC.

Under this bill, the credit rate is increased from 5% to 20% for the state supplement to the federal historic rehabilitation credit. The bill also restricts eligibility for the credit to qualified rehabilitation expenditures of at least \$50,000, and to rehabilitated properties placed in service after December 31, 2012, and before January 1, 2023.

This bill also creates a new nonrefundable credit equal to 5% of qualified expenses to rehabilitate buildings located in Wisconsin, and as defined under the federal Internal Revenue Code. The credit is similar to the federal credit for rehabilitating a building that was first placed in service before 1936, except that the federal credit is 10% of the qualified rehabilitation expenses.

Another provision of the bill allows a person to sell or otherwise transfer the credit to another person who is subject to Wisconsin tax if the person notifies the department of the transfer and submits with the notification a copy of the transfer documents.

Lastly, the bill requires the Department of Revenue and the State Historical Society to submit a report to the Joint Committee on Finance, no later than June 30, 2018, describing the economic impact of the tax credits and making a recommendation as to whether the tax credits should be continued.

In tax years 2007 to 2009, new claimants of the supplement to the federal historic rehabilitation credit claimed an average new credit amount \$1.44 million. More than 99% of the credit amount would have qualified if the \$50,000 threshold was in effect. Consequently, increasing the credit rate from 5% to 20% would increase new claims by \$4.33 million annually.

The federal tax expenditure related to the 10% credit for rehabilitating a building that was first placed in service before 1936, is approximately 3% of the tax expenditure related to the federal historic rehabilitation credit. Assuming similar levels of activity in Wisconsin, a new 5% credit for rehabilitation expenditures for these buildings would reduce revenue by approximately \$87,000 annually.

Combining these two fiscal effects, the bill is expected to reduce revenue by \$4.41 million annually.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Increasing the amount of the supplement to the federal historic rehabilitation tax credit			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$		\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$-4,410,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$-4,410,000
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>		<u>Local</u>
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$-4,410,000		\$
Agency/Prepared By		Authorized Signature	Date
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