

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2015 REGULAR SESSION**

MEASURE

2015 BR NUMBER **0385**

HOUSE BILL NUMBER **118**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to tax credits for rehabilitation of certified historic structures.**

SPONSOR **Representative D. Keene**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2014-2015	2015-2016	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$10,000,000)	(\$25,000,000)
EXPENDITURES			
NET EFFECT		(\$10,000,000)	(\$25,000,000)

() indicates a decrease/negative

MEASURE'S PURPOSE:

The bill provides for changes to the existing certified rehabilitation credit that would make it easier to be approved for the credit, would remove the overall cap on the amount of the credit that could be granted each year, and would remove the per-property credit limit as well. The amount of the credit would be changed to 15% of qualifying expenditures, with no per-taxpayer cap on the credit. Current law includes a cap of \$60,000 for residential property and \$400,000 for all other property, and an overall cap on credits awarded of \$5 million annually. The current process includes a tentative application, tentative approval, a final application when the project is complete, and a final award of credits.

PROVISIONS/MECHANICS:

KRS 171.397 is amended to modify the application and approval process. The new process would include an application, and a review to make sure the property is a qualified property. If

the property qualifies, and if the expenditure is ‘substantial’, the credit is refundable, automatic, and would have no upper limit, per taxpayer or per project. Further, there would be no cap on the total amount of credits that could be claimed annually.

There is, however, a time limit for completion of the project. Any project not completed within 24 months from the date of preliminary approval forfeits any credit under this program. This provision should discourage applicants from submitting an application until the project was “ready to go”. It should also stop the potential build-up of preliminary credits that could impact future years, if a significant amount of built-up credits are available for use in a future year.

FISCAL EXPLANATION:

Based on investment history in Kentucky and utilization increases that have occurred in other states that have made similar changes to similar credits, the usage of the credit is expected to increase, and the amount of the credit that is refunded is expected to increase.

While credits awarded are at or near the cap of \$5 million annually, the credit amounts actually taken under current law are approximately \$2 million annually, because credits claimed are less than tentative credits awarded (contingent on completion of the project).

By removing the annual cap, those applications that have been reduced or restricted would be fully granted if the property qualifies.

In addition to the changes that might occur for existing applications, the proposed changes would make the approval process easier for any property in any historic district or area to qualify for tax credits for rehabilitation. The owner of any building or residence in any historic district that undertakes even a modest renovation or repair project would qualify for a tax credit for the work done. There would no longer be an overall cap on the amount of credits that could be claimed under this program. Under this proposal, renovations in historic districts would have a streamlined approval process to receive a 15% tax credit for the entire cost of the renovation. The credits that would be granted from this increased usage would likely be substantial.

If this bill passes, it is anticipated that approvals for projects will increase substantially. After removal of the cap, all projects that meet the requirements will be approved.

Based on the expected increase in usage and the streamlined method of approval, the expected impact of this bill would be a reduction in income tax receipts or the pay-out of refundable credits of between \$10 million and \$15 million annually in the first biennium. The estimated usage in future years could be significantly higher, based on actual usage of similar credits in similar sized states.

DATA SOURCE(S): DOR, LRC staff, FTA, IRS, Kentucky Heritage Council
PREPARER: John Scott NOTE NUMBER: 4 REVIEW: GMR DATE: 1/20/2015