

Fiscal Note & Local Impact Statement

126th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. Sub. H.B. 149** DATE: **November 13, 2006**
STATUS: **As Passed by the House** SPONSOR: **Rep. Calvert**
LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Authorizes nonrefundable and transferable tax credits for rehabilitating historic buildings**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss of up to \$5.0 million	Potential loss of up to \$4.8 million or more depending on the tax credit carryovers and transfers	Potential loss of up to \$4.8 million or more depending on the tax credit carryovers and transfers
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2006 is July 1, 2005 – June 30, 2006.

- The credit would reduce the revenues collected from the personal income tax and the corporate franchise tax.
- Under the Revised Code formulas for the distribution of tax revenues, the General Revenue Fund (GRF) would bear 89.5% of any loss in personal income tax revenue and 95.2% of any loss in corporate franchise tax revenue. However, the local government fund freeze enacted in Am. Sub. H.B. 66 means the GRF will experience the full revenue loss in FY 2007.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2007	FY 2008	FUTURE YEARS
Counties, Municipalities, Townships (LGF, LGRAF, LLGSF)			
Revenues	Potential loss of up to \$0.2 million	Potential loss of up to \$0.2 million or more depending on the tax credit carryovers and transfers	Potential loss of up to \$0.2 million or more depending on the tax credit carryovers and transfers
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Under the Revised Code formulas for the distribution of tax revenues, the reduction in personal income tax and corporate franchise tax revenues would reduce distributions to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF). The local government fund freeze enacted in Am. Sub. H.B. 66 means the local government funds will experience a revenue loss of up to \$0.2 million starting in FY 2007. Revenue loss to the LLGSF will depend on credits claims against the personal income tax.

Detailed Fiscal Analysis

The bill authorizes a nonrefundable and transferable tax credit against the corporate franchise and personal income taxes for rehabilitating historic buildings. The credit equals 25% of the dollar amount of the taxpayer's "qualified rehabilitation expenditures." The bill requires the State Historic Preservation Officer to establish a procedure for applying for and reviewing applications for rehabilitation tax credit certificates. The Officer may collect a "reasonable" fee at the time an application is filed to defray expenses associated with the administration of the bill. The Officer may approve issuance of not more than 20 tax credit certificates each calendar year. The total amounts of credits claimed by a taxpayer for the same building shall not exceed \$250,000. The bill allows each tax credit certificate to be sold or transferred once.

In order to qualify for the tax credit for rehabilitating historic buildings, the building must be either listed on the national register of historic places, or located in a certified historic district. The Ohio Historic Preservation Office estimates that there are approximately 52,000 buildings in Ohio that fit this description. Once rehabilitation has been completed for one of these properties, the property owner must apply to the State

Historic Preservation Officer for a rehabilitation tax credit certificate. The rehabilitated building must be held as an income-producing, depreciable property. The property owner must have this certificate to receive the credit. Generally, the criteria that apply to qualify for the federal rehabilitation tax credit also apply to the Ohio rehabilitation tax credit.

The tax credit is nonrefundable. If the value of the credit exceeds the taxpayer's tax liability to the state, the remaining value of the credit may be carried forward for up to ten years, and applied to the tax liability for a following year until the full amount of the credit has been claimed. The amount of the credit claimed in a given year, and thus the revenue loss for that year, is limited by taxpayers' liabilities and by the maximum \$250,000 per building. Assuming that the Officer chooses applications for which qualified expenditures would allow the taxpayer the full \$250,000 tax credit for a building, the revenue loss per year for the 20 tax credit certificates is up to \$5.0 million. This estimate assumes that the taxpayer's liability is sufficiently high to claim the credits. However, due to the potential carryover and sale of tax credits, the actual annual revenue loss from the personal income and the franchise taxes may be higher or lower than \$5.0 million

Under the Revised Code formulas for the distribution of state tax revenues, the General Revenue Fund (GRF) bears 89.5% of any loss of personal income tax revenue, and 95.2% of any loss of corporate franchise tax revenue. Thus, the annual revenue loss may be up to \$4.8 million each year, except for FY 2007. The local government fund freeze enacted in Am. Sub. H.B. 66 means that the GRF experiences the full revenue loss, up to \$5.0 million, in FY 2007. Because the credit is nonrefundable, annual revenue losses may be higher in future years depending on the effect and timing of the carryovers and transfers.

Under the Revised Code formulas for the distribution of tax revenues the reduction in personal income tax and corporate franchise tax revenues would reduce distributions to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF). The LLGSF receives 5.7% of personal income tax revenues. The LGRAF receives 0.6% of revenues from the personal income and corporation franchise taxes. The LGF receives 4.2% of receipts from the personal income and corporation franchise taxes. The local government fund freeze enacted in Am. Sub. H.B. 66 means that the local government funds will experience combined revenue losses of \$0.2 million per year, starting in FY 2007.

Exhibit 1 provides the total number of projects, the number of projects that cost over \$1 million, the total amount of Ohio qualified rehabilitation expenditures, the value of the federal tax credits (20% of qualified expenditures), and the estimated value of Ohio tax credits (had H.B. 149 been in place from CY 2001 and CY 2005). Potential Ohio tax credits are based on the number of projects (buildings) with qualified rehabilitation expenditures over \$1.0 million. Total credits are the sum of federal and estimated Ohio credits.

Due to the limitation on the number of annual tax credit certificates that may be issued (20) and the limit on claims per historic building (\$250,000), the maximum revenue loss would have been \$22.8 million if H.B. 149 had been in place between CY 2001 and CY 2005. Data is from the database of the Ohio Historic Preservation Office from CY 2001 through CY 2005.^[1]

Exhibit 1: Number of Projects, Qualified Rehabilitation Expenditures, and Estimated Value of the Federal and Ohio Tax Credits, CY 2001-CY 2005 (dollars in millions)							
Year	Number of Projects	Projects over \$1 million	Total Expenditures	Average Expenditure Per Project	Federal Tax Credits	Potential Ohio Tax Credits	Total Credits
CY 2005	69	18	\$179.3	\$2.6	\$35.9	\$4.5	\$40.4
CY 2004	48	19	\$94.2	\$2.0	\$18.8	\$4.8	\$23.6
CY 2003	73	30	\$236.6	\$3.2	\$47.3	\$5.0	\$52.3
CY 2002	61	16	\$85.8	\$1.4	\$17.1	\$4.0	\$21.1
CY 2001	51	18	\$93.2	\$1.8	\$18.6	\$4.5	\$23.1

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^[1] This database contains a detailed listing of all historic rehabilitation projects completed in Ohio.