Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2013 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 13-3423/1	Introduction Number AB-0004 (OC3)

Description
Increasing the amount of the supplement to the federal historic rehabilitation tax credit

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☒ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget
☒ Yes ☐ No
☐ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs
☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs
☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue
☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue
☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others 0
☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984	Michael Wagner (608) 266-6785	10/15/2013

Fiscal Estimate Narratives

DOR 10/15/2013

LRB Number **13-3423/1**	Introduction Number **AB-0004 (OC3)**	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 10% 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 for the state supplement to the federal historic rehabilitation credit is increased from 10% to 20% . The new credit rate applies to rehabilitated properties placed in service after December 31, 2012. The bill also reorders the credit so that it is able to offset minimum tax liability.

This bill creates a new nonrefundable credit equal to 20% of qualified expenses to rehabilitate buildings located in Wisconsin, 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, 2016, 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 at the prior law credit rate of 5%. In addition to the credit rate increase, bill provisions reordering the credit so that it offsets minimum tax liability and allowing for credit transferability are also expected to increase the tax impact of the credit. Consequently, increasing the credit rate from 10% to 20% is expected to increase new claims by $3.55 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 20% credit for rehabilitation expenditures for these buildings would reduce revenue by approximately $350,000 annually.

Combining these two fiscal effects, the bill is expected to reduce revenue by $3.9 million annually.

Long-Range Fiscal Implications

Wisconsin Department of Administration
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Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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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	$	$-3,900,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$-3,900,000**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$-3,900,000	$

Agency/Prepared By	**Authorized Signature**	**Date**
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