

Fiscal Estimate - 2003 Session

- Original Updated Corrected Supplemental

LRB Number 03-1157/3		Introduction Number AB-309		
Subject Historic rehabilitation tax credit				
Fiscal Effect				
State:				
<input type="checkbox"/> No State Fiscal Effect				
<input type="checkbox"/> Indeterminate				
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Increase Existing Revenues		
<input type="checkbox"/> Decrease Existing Appropriations		<input checked="" type="checkbox"/> Decrease Existing Revenues		
<input type="checkbox"/> Create New Appropriations		<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget		
		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
		<input type="checkbox"/> Decrease Costs		
Local:				
<input type="checkbox"/> No Local Government Costs				
<input type="checkbox"/> Indeterminate				
5. Types of Local Government Units Affected				
1. <input type="checkbox"/> Increase Costs		3. <input type="checkbox"/> Increase Revenue		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		
2. <input type="checkbox"/> Decrease Costs		4. <input type="checkbox"/> Decrease Revenue		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		
		<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities		
		<input type="checkbox"/> Counties <input type="checkbox"/> Others		
		<input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected		Affected Ch. 20 Appropriations		
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		20.566 (1)(a)		
Agency/Prepared By		Authorized Signature		Date
DOR/ Pamela Walgren (608) 266-7817		Dennis Collier (608) 266-5773		5/12/2003

Fiscal Estimate Narratives

DOR 5/12/2003

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Subject Historic rehabilitation tax credit		

Assumptions Used in Arriving at Fiscal Estimate

Current Law

Under current law, two nonrefundable credits are provided to encourage the rehabilitation of historic buildings in Wisconsin: a supplement to the federal historic rehabilitation credit for commercial properties and a state credit for non-commercial properties.

The supplement to the federal historic rehabilitation credit, equal to 5% of qualified rehabilitation expenditures, can be claimed for projects that are eligible for the federal credit to substantially rehabilitate certified historic buildings for use in a trade or business. The credit is patterned after the federal 20% credit for commercial rehabilitation of historic buildings. Claimants must submit evidence to the Department that the rehabilitation work was approved by the Secretary of the Interior before construction began. 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 can be carried forward for up to 15 years.

The state historic rehabilitation credit is equal to 25% of qualified expenditures to substantially rehabilitate certified historic buildings for owner-occupied personal residences not used in the course of a trade or business. The rehabilitation work must meet historic preservation standards and the expenditures must exceed \$10,000. The maximum credit amount is \$10,000 (\$5,000 for married persons filing separately). Unused amounts of credit can be carried forward for up to 15 years.

Under current law, the amount of the historic credits is used to compute the working families credit. The working families credit is defined as gross tax liability less the itemized deductions, school property tax credit and the historic rehabilitation credits when income is less than \$18,000 for married couples filing jointly and \$9,000 for other tax filers. The credit essentially eliminates tax liability when income is below these ceilings and is phased out over the next \$1,000 when income is above these ceilings.

Description of the Bill

The bill would increase the amount of the supplement to the federal credit for rehabilitation of commercial properties from 5% to 20% of qualified expenditures if the physical work of construction or destruction in preparation of construction begins after December 31, 2003. Persons who are not eligible for the federal credit because qualified rehabilitation expenditures do not satisfy the adjusted basis requirement may claim the state credit if qualified expenses are at least \$10,000 and the project is recommended for approval by the state historic preservation officer before physical work on the project begins. Claimants must submit evidence to the Department of Revenue that the project was recommended to the Secretary of the Interior for approval by the state historic preservation officer before construction began and must claim the credit for the same taxable year as the credit is claimed for federal purposes.

Persons who are not residents of the state and not required to file tax returns in the state, but who have incurred qualified expenses, may enter into an agreement, subject to the Department of Revenue's approval, so that another person may claim the credit.

For taxable years beginning after January 1, 2004, the bill would increase the owner-occupied residential credit from 25% to 30% and allow the credit to offset the alternative minimum tax. The bill would also amend the definition of net tax liability for purposes of the working families credit so that the historic credit would not be deducted from gross tax liability in computing the amount of the credit.

Fiscal Effect

Based on simulations done on the individual and corporate income tax samples, the estimated revenue loss from increasing the amount of the historic credits and applying the residential credit to the alternative minimum tax would be \$3.1 million (\$0.95 million in individual income tax revenues and \$2.15 million in corporate income tax revenues).

Data are not available to estimate the fiscal effect of allowing persons to claim the commercial rehabilitation credit if they do not satisfy the federal adjusted basis requirements. Based on information from staff at the Historical Society, it is believed that this provision could substantially increase the fiscal effect because the provision would greatly expand the number of eligible credit claimants, although the additional claims would be based on smaller expenditures. There also could be pent-up demand that would increase the fiscal effect in the first few years after enactment.

The proposed legislation makes no provision for the funding of the costs involved in administering the activities required. The department estimates one-time costs for developing forms and programming at \$62,500. Annual ongoing costs are estimated at \$2,800.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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Subject			
Historic rehabilitation tax credit			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
\$62,500 one-time costs for developing forms and programming.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$2,800	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$2,800	\$
B. State Costs by Source of Funds			
GPR		2,800	
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, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-3,100,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-3,100,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$2,800	\$
NET CHANGE IN REVENUE		\$-3,100,000	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817		Dennis Collier (608) 266-5773	5/12/2003