

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 323 (Second Edition)

**SHORT TITLE:** Historic Rehabilitation Tax Credits

**SPONSOR(S):** Senator Horton, et al

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<u><b>FY 1997-98</b></u>	<u><b>FY 1998-99</b></u>	<u><b>FY 1999-00</b></u>	<u><b>FY 2000-01</b></u>	<u><b>FY 2001-02</b></u>
<b>REVENUES</b>					
General Fund (G.F.)					
Income Producing Credit	-	25,000	(775,000)	(1,775,000)	(2,875,000)
Non-Income Producing Credit	-	(81,600)	(201,600)	(403,200)	(724,800)
Total Historic Credits		(\$56,600)	(\$976,600)	(\$2,178,200)	(\$3,599,800)
<b>EXPENDITURES</b>					
General Fund (G.F.)					
Dept. of Cultural Resources	\$54,344	\$212,298	\$201,226	\$208,431	\$215,924
<b>NET G.F. IMPACT</b>	<b>(\$54,344)</b>	<b>(\$268,898)</b>	<b>(\$1,177,826)</b>	<b>(\$2,386,631)</b>	<b>(\$3,815,724)</b>
<b>POSITIONS:</b>	1	5	5	5	5
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Cultural Resources/ State Historic Preservation Office					
<b>EFFECTIVE DATE:</b> Effective for taxable years beginning on or after January 1, 1998.					

**BILL SUMMARY:** The 1993 General Assembly provided investors with a 5% corporate and individual income tax credit for rehabilitating historic structures (GS 105-130.42 & GS 105-151.23). The state credit piggybacks on the 20% Federal Rehabilitation Investment Tax Credit. To be eligible for the credit, the building must be income-producing, the rehabilitation must be substantial, and the rehab costs must be incurred within 24 months. The bill increases the individual and corporate income tax credits from 5% to 20% for income producing properties. The bill creates a new 30% credit for non-income producing historic structures. To earn this credit, the expenditures on a non-income producing project must exceed \$25,000 over a 24 month period.

**ASSUMPTIONS AND METHODOLOGY:** North Carolina has 2,000 listings of historic buildings, structures, sites, objects, and districts on the National Register of Historic Places. However, of the approximately 35,000 structures represented by the listings, only 6% are income producing and eligible for the existing federal and state credit. Since the credit became available in tax year 1994, the North Carolina State Historic Preservation Office reported the following building activity to the National Park Service:

<b>Year</b>	<b>Projects</b>	<b>Rehab Costs</b>	<b>5% Credit</b>
1994	26	\$ 9,608,766	\$ 480,438
1995	34	13,769,094	688,455
1996	32	22,102,493	1,105,125

SB 323 will expand the state historic rehab tax credit by :

- (1) Increasing the income producing credit value to 20%,
- (2) Establishing a 30% credit for owner-occupied residences (non-income producing) and,
- (3) Lengthening the time to take the credit from 1 year to 5 years.

In the last seven years, the average number of **income producing projects** earning the federal credit each year was 29. The average project cost for the state 5% credit in the last three years was \$500,000 per project. The NC State Historic Preservation Office (SHPO) anticipates the new tax credit will be attractive to taxpayers and thus the number of renovation projects will grow. SHPO estimates the number of projects and the total project amounts (using \$500,000 per project) will be as follows:

1998	35	\$17,500,000
1999	40	20,000,000
2000	50	25,000,000
2001	55	27,500,000
2002	60	30,000,000

Although new to North Carolina, a rehabilitation tax credit for homeowners or **non-income producing projects** has been available to citizens of Colorado, Maryland, New Mexico, Rhode Island, Utah, and Wisconsin. The State Historical Society of Wisconsin reports a 50 to 75% growth rate over the last four years of its program. SHPO believes this tax credit will also prove to be popular in North Carolina as reflected in their numbers below. The numbers below show completed projects and total project cost each year (based on \$40,000 per project). However, these numbers are 1/3 lower than original projections because the expenditure threshold was raised from \$10,000 to \$25,000.

1998	34	\$1,360,000
1999	50	2,000,000
2000	84	3,360,000
2001	134	5,360,000
2002	184	7,360,000

Using the SHPO estimates, a chart below was produced to cost out the rehabilitation tax credit. For income producing projects, the total project amount for each year shown on page two is multiplied by 20% then allocated over a five year period. For example, in 1998-99 it is estimated that 35 projects valued at \$17.5 million will qualify for the credit. By multiplying the \$17.5 million by the 20% credit you get \$3.5 million. When this \$3.5 million credit is allocated over five years, the revenue loss is \$700,000 per year. Similarly, for non-income producing projects, the total project amount for each year on page two is multiplied by 30% then allocated over a five year period. It is assumed that the credits will be taken on the annual tax return and not be subtracted from the estimated payments to the State Department of Revenue. In the first year of the credit, it is assumed that taxpayers will submit their paperwork to the SHPO in 1997 in order to get their projects underway and completed in tax year 1998. The current 5% tax credit is kept at a flat rate based on 29 projects and \$500,000 per project. The current tax credit must be subtracted from the proposed credit to get the net impact to the General Fund.

## I. Income Producing Projects

	<b>FY 97-98</b>	<b>FY 98-99</b>	<b>FY 99-00</b>	<b>FY 00-01</b>	<b>FY 01-02</b>
Tax Year					
1998		(700,000)	(700,000)	(700,000)	(700,000)
1999			(800,000)	(800,000)	(800,000)
2000				(1,000,000)	(1,000,000)
2001					(1,100,000)
2002					
<b>Total</b>	-	<b>(700,000)</b>	<b>(1,500,000)</b>	<b>(2,500,000)</b>	<b>(3,600,000)</b>
Current 5% Credit		725,000	725,000	725,000	725,000
Net Change in Credit		25,000	(775,000)	(1,775,000)	(2,875,000)

## II. Non-Income Producing Projects

	<b>FY 97-98</b>	<b>FY 98-99</b>	<b>FY 99-00</b>	<b>FY 00-01</b>	<b>FY 01-02</b>
Tax Year					
1998		(81,600)	(81,600)	(81,600)	(81,600)
1999			(120,000)	(120,000)	(120,000)
2000				(201,600)	(201,600)
2001					(321,600)
2002					
<b>Total</b>	-	<b>(81,600)</b>	<b>(201,600)</b>	<b>(403,200)</b>	<b>(724,800)</b>

## **Historic Credit Administrative Expense**

The State Historic Preservation Office (SHPO) has stated to the Fiscal Research Division that it will need additional personnel to handle the proposed historic rehabilitation tax credit program. In FY 97-98, the Department requests a Facility Architect I to handle the increase in application reviews and technical consultations. Salary and fringes for this position are \$36,744 with an additional \$4,500 for furniture and equipment (one time expense) and \$2,000 for travel. The request also includes \$11,100 each year for printing tax credit guidelines (\$1,500), for travel and telephone expenses in providing technical services to applicants (\$3,500), for postage and supplies (\$2,100), and for the appeals process for denied projects (\$4,000).

In FY 98-99, the Department requests a Historic Preservation / Survey Specialist I to function as a National Register Reviewer for the increase in Register nominations. Salary, fringes and expenses for this position total \$40,426 minus \$4,500 in one time cost of furniture and equipment. Also in FY 98-99, three Historic Preservation/ Restoration Specialist I's will be needed in the regional offices in Asheville , Greenville, and Raleigh. These specialists will provide rehabilitation technical services and do preliminary reviews of applications. The salary, fringes and expenses for these positions also equals \$40,426 each.

For estimating purposes, the salaries and fringes are increased 4% each year to project future year cost. All administrative expenses are kept constant.

### **FISCAL RESEARCH DIVISION**

**733-4910**

**PREPARED BY:** Richard Bostic

**APPROVED BY:** Tom Covington **TomC**

**DATE:** April 17, 1997



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