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BILL ANALYSIS

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Senate Bill 469 (as reported without amendment)
Sponsor: Senator Wayne Schmidt
Committee: Finance

**CONTENT**

The bill would amend the Income Tax Act to do the following:

-- Allow a qualified taxpayer with a rehabilitation plan certified after December 31, 2017, to credit against the income tax under Part 1 or the Corporate Income Tax (CIT) under Part 2 25% of the qualified expenditures that met eligibility criteria for the historic rehabilitation credit under the Internal Revenue Code for the rehabilitation of a historic resource (the Federal credit).
-- Require a qualified taxpayer to apply to and receive from the Michigan State Housing Development Authority (MSHDA) that the historic significance, the rehabilitation plan, and the completed rehabilitation of the historic resource met certain criteria.
-- Require a qualified taxpayer to file for certification with MSHDA to qualify for the Federal credit if the taxpayer were eligible for it, unless the taxpayer had previously done so.
-- Require a historic resource to meet certain criteria.
-- Specify that the portion of the credit that exceeded the taxpayer's tax liability for the year would not be refunded but could be carried forward to offset tax liability in subsequent tax years for 10 years or until used up, whichever occurred first.
-- Allow a qualified taxpayer under Part 1 to elect to forgo the carryover period and receive a refund equal to 90% of the amount of the credit that exceeded the taxpayer's tax liability if the credit amount were less than $250,000.
-- Allow a qualified taxpayer under Part 2 to assign all or a portion of the credit, and allow an assigned credit amount to be claimed under Part 1 or Part 2.
-- Require a percentage of the credit amount previously claimed to be added back to the tax liability of the qualified taxpayer, if the certificate of completed rehabilitation were revoked or if the historic resource were sold or disposed of less than five years after being placed in service.
-- Allow MSHDA to revoke certification of completed rehabilitation under certain circumstances.
-- Specify that the total of the credits claimed for a rehabilitation project could not exceed 25% of the total qualified expenditures eligible for a credit for that project.

Proposed MCL 206.266a & 206.675 Legislative Analyst: Drew Krogulecki

**FISCAL IMPACT**

According to the Michigan Department of Treasury, the bill would reduce State revenue by approximately $10.0 million to $12.0 million per year, with the overwhelming majority of the impact reducing General Fund revenue. Most historic preservation credits claimed under the current law are claimed by business filers, and are claimed under the Michigan Business Tax (MBT). The bill would add the credit to the Corporate Income Tax (CIT), which currently does not allow any credits. Taxpayers that currently claim the credit under the MBT would not be affected by the bill until they exhausted all MBT certificated credits and shifted to filing CIT returns, or in the case of pass-through entities such as partnerships and S-corporations, shifted to filing individual income tax returns.

The impact of the credit on the State, either under current law or under the bill, will be affected by changes in Federal law, because the credit is reduced for any credit claimed at the Federal level. Congress is considering several tax reform provisions and some of those could alter, reduce, or eliminate the Federal credit. To the extent that any changes reduced or eliminated the Federal credit, the revenue loss to the State could increase substantially. For example, the current Federal credit is often 20% of eligible expenses--meaning that the cost to the State is approximately 5% of the eligible expenses. If the bill would reduce tax revenue by $10.0 million per year under current Federal law, then the bill would reduce State revenue by $50.0 million per year if the Federal credit were eliminated.

Date Completed: 12-1-17 Fiscal Analyst: David Zin