Legislative Fiscal Bureau
Fiscal Note

SF 441 - Housing Tax Credit Bifurcation (LSB 2087 SV)
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Fiscal Note Version — New

Description

Senate File 441 allows for the transfer (sale) of State housing investment tax credits under the Enterprise Zone Program if the project is also financed with low-income housing tax credits authorized under Section 42 of the Internal Revenue Code. Senate File 441 specifies certain requirements that must be met in the awarding and claiming of the tax credits. The Bill requires the Departments of Economic Development and Revenue and Finance to adopt procedures relating to the issuance, transfer, and redemption of these tax credits. The proposed legislation allows a person receiving a historic property rehabilitation tax credit to transfer all or a portion of the unused tax credit to any other person. Senate File 441 allows the transferee to use the amount of the tax credit against personal or corporate income tax liability, franchise tax liability, or insurance premium tax liability for any tax year the transferor could have claimed the tax credit. The Bill prohibits the transfer of tax credits from being considered as income or deducted from income for State tax purposes.

Assumptions

1. Under current law, the federal low-income housing tax credits under Section 42 of the Internal Revenue Code and the State investment tax credits on housing projects within enterprise zones must be sold together and are not transferable. Therefore, investors who purchase these tax credits must have both federal and State tax liability. This limits the supply of investors who would purchase the tax credits and reduces the demand for the tax credits as well. As a result, the State tax credits are purchased by investors for approximately 40 cents on the dollar. Senate File 441 allows the State tax credits to be transferred and sold separately from the federal credits, increasing the supply of investors able to use the State tax credits and increasing the demand for the credits. This will increase the rate of return on the State tax credits. The Iowa Finance Authority estimates the State tax credits will now be sold for 80 cents on the dollar.
2. The rate of return on State tax credits for housing projects in enterprise zones will double from 40 cents on the dollar to 80 cents on the dollar. The increased rate of return on State tax credits will decrease the per project utilization of federal low-income housing tax credits under Section 42 of the Internal Revenue Code. Assuming the savings that result to the federal tax credits will be used for additional low-income housing projects, two additional low-income housing projects per year will be able to receive the federal tax credits. This will increase the award and utilization of State tax credits provided at least one of the two additional projects locates within an enterprise zone.
3. During FY 2002, there were 16 low-income housing projects, 10 of which were located within an enterprise zone. This equates to 62.5% of low-income housing projects being located within enterprise zones. Assuming the same percentage of projects will continue in future fiscal years, at least one of the additional two projects mentioned above will locate within an enterprise zone.
4. Tax credits may be awarded in FY 2004 for the additional project, but cannot be utilized until the completion of the project. The average completion time of a low-income housing project is over one year. The fiscal impact of the purposed legislation will not occur until FY 2005.

5. The ten low-income housing projects in FY 2002, located within enterprise zones, received State investment tax credits totaling approximately $2.1 million. This is an average award of $210,000 in tax credits per project.
6. The utilization rate of State investment tax credits for low-income housing projects under the Enterprise Zone Program is unknown. It is assumed that an investor currently purchasing the federal and State tax credits has a federal and State tax liability equal to or greater than the dollar amount of the tax credits awarded and purchased. Therefore, current utilization of State tax credits awarded is close to 100.0%. If current utilization is less than 100.0%, the fiscal impact of Senate File 441 would be the difference between the current utilization rate and a 100.0% utilization rate. Allowing for the transfer of tax credits would almost ensure a 100.0% utilization rate.
7. The historic property rehabilitation tax credit is capped at $2.4 million annually, and therefore, will not add to the fiscal impact of this Bill.

Fiscal Impact

Senate File 441 would reduce General Fund revenues by approximately $210,000 annually starting in FY 2005.

Sources

Iowa Department of Economic Development
Iowa Finance Authority

/s/ Dennis C Prouty

April 16, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.