

MAR 2 2006
WAYS AND MEANS

HOUSE FILE 2610
BY COMMITTEE ON ECONOMIC GROWTH

(SUCCESSOR TO HF 2131)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to historic preservation and cultural and
2 entertainment district tax credits.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2610

1 Section 1. Section 404A.1, subsection 1, Code Supplement
2 2005, is amended to read as follows:

3 1. A historic preservation and cultural and entertainment
4 district tax credit, subject to the availability of the
5 credit, is granted against the tax imposed under chapter 422,
6 division II, III, or V, or chapter 432, for the rehabilitation
7 of eligible property located in this state as provided in this
8 chapter. Tax credits in excess of tax liabilities shall be
9 refunded or credited as provided in section 404A.4, subsection
10 3.

11 Sec. 2. Section 404A.1, Code Supplement 2005, is amended
12 by adding the following new subsection:

13 NEW SUBSECTION. 3. A historic preservation and cultural
14 and entertainment district tax credit shall be limited to
15 rehabilitation of depreciable structures used in a trade or
16 business or held for the production of income, such as
17 commercial or residential rental properties.

18 Sec. 3. Section 404A.4, subsection 3, Code Supplement
19 2005, is amended to read as follows:

20 3. A person receiving a historic preservation and cultural
21 and entertainment district tax credit under this chapter which
22 is in excess of the person's tax liability for the tax year is
23 entitled to a refund of the excess at a discounted value. The
24 discounted value of the tax credit refund, as calculated by
25 the department of economic development, in consultation with
26 the department of revenue, shall be determined based on the
27 discounted value of the tax credit five years after the tax
28 year of the project completion at an interest rate equivalent
29 to the prime rate plus two percent. The refunded tax credit
30 shall not exceed seventy-five percent of the allowable tax
31 credit. In lieu of claiming a refund, a taxpayer may elect to
32 have the excess refund, not to exceed seventy-five percent of
33 the allowable tax credit, credited to the tax liability for
34 the following seven tax years or until depleted, whichever
35 occurs first. A tax credit shall not be carried back to a tax

1 year prior to the tax year in which the taxpayer claims the
2 tax credit.

3 Sec. 4. Section 404A.4, subsection 4, Code Supplement
4 2005, is amended to read as follows:

5 4. The total amount of tax credits that may be approved
6 for a fiscal year under this chapter shall not exceed two
7 twenty million four-hundred-thousand dollars. For-the-fiscal
8 period-beginning-July-1, 2005, and ending June 30, 2015, an
9 additional-four-million-dollars-of-tax-credits-may-be-approved
10 each-fiscal-year-for-purposes-of-projects-located-in-cultural
11 and-entertainment-districts-certified-pursuant-to-section
12 303.3B. Of the tax credits approved for a fiscal year under
13 this chapter, not more than four million dollars shall be
14 allocated for purposes of projects with a cost of five hundred
15 thousand dollars or less located in cities with a population
16 of less than twenty-four thousand, and not more than ten
17 million dollars shall be allocated for purposes of projects
18 located in cultural and entertainment districts certified
19 pursuant to section 303B.3B. Any of the additional tax
20 credits allocated for projects located in certified cultural
21 and entertainment districts and for projects with a cost of
22 five hundred thousand dollars or less located in cities with a
23 population of less than twenty-four thousand that are not
24 approved reserved during a fiscal year shall be applied to
25 reserved tax credits issued in accordance with section 404A.3
26 in order of original reservation. The department of cultural
27 affairs shall establish by rule the procedures for the
28 application, review, selection, and awarding of certifications
29 of completion. The department of cultural affairs shall
30 establish by rule a method for the equitable distribution of
31 tax credits throughout the state. The departments of economic
32 development, cultural affairs, and revenue shall each adopt
33 rules to jointly administer this subsection and shall provide
34 by rule for the method to be used to determine for which
35 fiscal year the tax credits are available. With the exception

1 of tax credits issued pursuant to contracts entered into prior
2 to July 1, 2005, tax credits shall not be reserved for more
3 than five years.

4 Sec. 5. Section 422.11D, subsection 1, Code Supplement
5 2005, is amended to read as follows:

6 1. The taxes imposed under this division, less the credits
7 allowed under sections 422.12 and 422.12B, shall be reduced by
8 a historic preservation and cultural and entertainment
9 district tax credit equal to the amount as computed under
10 chapter 404A for rehabilitating eligible property. Any credit
11 in excess of the tax liability shall be refunded or credited
12 to succeeding tax years as provided in section 404A.4,
13 subsection 3.

14 Sec. 6. Section 422.33, subsection 10, paragraph a, Code
15 Supplement 2005, is amended to read as follows:

16 a. The taxes imposed under this division shall be reduced
17 by a historic preservation and cultural and entertainment
18 district tax credit equal to the amount as computed under
19 chapter 404A for rehabilitating eligible property. Any credit
20 in excess of the tax liability shall be refunded or credited
21 to succeeding tax years as provided in section 404A.4,
22 subsection 3.

23 Sec. 7. Section 422.60, subsection 4, paragraph a, Code
24 Supplement 2005, is amended to read as follows:

25 a. The taxes imposed under this division shall be reduced
26 by a historic preservation and cultural and entertainment
27 district tax credit equal to the amount as computed under
28 chapter 404A for rehabilitating eligible property. Any credit
29 in excess of the tax liability shall be refunded or credited
30 to succeeding tax years as provided in section 404A.4,
31 subsection 3.

32 Sec. 8. Section 432.12A, subsection 1, Code Supplement
33 2005, is amended to read as follows:

34 1. The tax imposed under this chapter shall be reduced by
35 a historic preservation and cultural and entertainment

1 district tax credit equal to the amount as computed under
2 chapter 404A for rehabilitating eligible property. Any credit
3 in excess of the tax liability shall be refunded or credited
4 to succeeding tax years as provided in section 404A.4,
5 subsection 3.

6 EXPLANATION

7 This bill relates to historic preservation and cultural and
8 entertainment district tax credits.

9 The bill limits historic preservation and cultural and
10 entertainment district tax credits to rehabilitation of
11 depreciable structures used in a trade or business or held for
12 the production of income, such as commercial or residential
13 rental properties.

14 Currently, a person receiving a historic preservation and
15 cultural and entertainment district tax credit may receive a
16 tax credit refund at a discounted value for the amount in
17 excess of the taxpayer's tax liability in the year that the
18 tax credit is claimed. The bill allows a taxpayer, in lieu of
19 claiming a refund, to elect to have the excess refund, not to
20 exceed 75 percent of the allowable tax credit, credited to the
21 taxpayer's tax liability for the following seven tax years or
22 until depleted, whichever occurs first. The bill prohibits a
23 tax credit from being carried back to a tax year prior to the
24 tax year in which the taxpayer claims the tax credit.

25 Currently, \$2.4 million of historic preservation and
26 cultural and entertainment district tax credits may be
27 approved in a fiscal year, and for the fiscal period beginning
28 July 1, 2005, and ending June 30, 2015, an additional \$4
29 million of tax credits may be approved each fiscal year for
30 purposes of projects located in certified cultural and
31 entertainment districts. The bill eliminates the additional
32 \$4 million of tax credits and increases the \$2.4 million of
33 tax credits to \$20 million of tax credits each fiscal year.
34 The bill provides that \$4 million of the \$20 million of tax
35 credits are allocated for projects with a cost of \$500,000 or

1 less located in cities with a population of less than 24,000.
2 The bill provides that \$10 million of the \$20 million of tax
3 credits are allocated for projects located in cultural and
4 entertainment districts. The bill provides that any of the
5 allocated tax credits that are not reserved during a fiscal
6 year shall be applied to reserved tax credits in order of
7 original reservation. The bill provides that the department
8 of cultural affairs shall establish by rule a method of the
9 equitable distribution of tax credits throughout the state.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2610 - Historical Preservation Tax Credits (LSB 5843 HV)
Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 2610 relates to the Historic Preservation Tax Credit Program administered by the Department of Cultural Affairs. The Bill:

- Restricts credit use to depreciable structures used in trade or business.
- Increases the total amount of credits available each year from the present combined limit of \$6.4 million to \$20.0 million.
- Directs the Department of Cultural Affairs to establish a method of equitable distribution of available tax credits throughout the State.

Background

Current law provides for a 25.0% tax credit for rehabilitation costs associated with an historic property. The credits are limited to \$2.4 million in total each fiscal year, with an additional \$4.0 million available each year for historic properties located in Cultural and Entertainment Districts as defined in Section 303.3B, Code of Iowa.

Property eligible for tax credits under current law includes:

- Property listed on the national register of historic places or eligible for such listing.
- Property designated as of historic significance to a district listed in the national register of historic places or eligible for such designation.
- Property or district designated a local landmark by a city or county ordinance.
- A barn constructed prior to 1937.

Current law allows taxpayers with credits in excess of tax liability to receive a refund at a discounted value for any credits in excess of tax liability for the year redeemed.

The Bill is effective July 1, 2006, and will first impact FY 2007.

Assumptions

1. Increasing the annual credits allowed from the current level of \$6.4 million to \$20.0 million will increase annual awards by \$13.6 million.
2. Under current law and under the proposed law, not all awarded credits will be redeemed at full value, due to the discounted value allowed for any credits in excess of tax liability. Therefore, the credits redeemed are assumed to equal 90.0% of credits awarded.
3. Under current law, the General Fund impact is equal to 90.0% of awarded credits awarded with 60.0% redeemed in the year of award and 30.0% redeemed in the following fiscal year.
4. Due to the time necessary to plan and initiate construction projects, credits awarded for FY 2007 under the proposed law will be redeemed 35.0% in FY 2007, 30.0% in FY 2008, and 25.0% in FY 2009.

5. Credits awarded for FY 2008 will be redeemed 50.0% in FY 2008 and 40.0% in FY 2009.
6. Credits awarded for FY 2009 and future years will be redeemed 60.0% in the year of award and 30.0% in the following fiscal year.
7. For the foreseeable future, demand for the tax credits will meet or exceed \$20.0 million per year.

Fiscal Impact

The tax credit changes contained in HF 2610 are projected to reduce net General Fund revenue by the following amounts:

- FY 2007 = \$ 3.2 million
- FY 2008 = \$10.2 million
- FY 2009 = \$19.2 million
- FY 2010 = \$12.2 million

For future years, the impact will be similar to FY 2010. Since this credit is subtracted from the taxpayer's tax liability after calculation of the local option surtax for schools, this credit does not impact the surtax.

The projected impact does not include the estimated impact on other government tax expenditures through tax credit, tax abatement, and tax increment financing incentive programs. Increasing the available historic preservation credits available will make more projects viable. Historic preservation projects located in Enterprise Zones are potentially eligible for an additional 10.0% investment tax credit and a sales tax exemption. Local governments often contribute to historic preservation projects through grants and tax abatements as well as tax rebates and other assistance available through tax increment financing.

Source

Department of Cultural Affairs

/s/ Holly M. Lyons

April 4, 2006

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 Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
