

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Alfonso H. Lopez

3. **Committee** House Finance

4. **Title** Historic Rehabilitation Tax Credit; Increase
Per Taxpayer Limitation

2. **Bill Number** HB 1219

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would increase the maximum amount of the Historic Rehabilitation Tax Credits that a taxpayer may claim per taxable year from \$5 million to \$10 million.

This bill would be effective for taxable years beginning on and after January 1, 2022.

6. Budget amendment necessary: No.

7. Fiscal Impact Estimates are: Unknown. (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department of Taxation considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2023. This legislation would increase the amount of Historic Rehabilitation Tax Credits a taxpayer may claim per taxable year from \$5 million to \$10 million. Based on Fiscal Year 2021 data, such a change could have an impact of approximately \$15 million annually. However, it is uncertain to what extent taxpayers will have enough available credits for the current year or carryover credits from a previous year to claim credits in excess of \$5 million. Any negative revenue impact would be to the extent taxpayers are able to do so.

9. Specific agency or political subdivisions affected:

Department of Taxation

Department of Historic Resources

10. Technical amendment necessary: No.

11. Other comments:

Virginia Historic Rehabilitation Tax Credit

Under Virginia law, a taxpayer with eligible expenses in the rehabilitation of a certified historic structure is entitled to claim a tax credit. The credit is equal to 25 percent of rehabilitation expenses for projects completed in 2000 and thereafter. To qualify for the tax credit, the cost of the rehabilitation must equal to at least 50 percent (or 25 percent if the building is owner occupied) of the assessed value of the building for local real estate tax purposes prior to the rehabilitation. The rehabilitation work must be certified by the Department of Historic Resources (“DHR”) and be consistent with the Secretary of the Interior's standards for rehabilitation. The allowable tax credit may not exceed a taxpayer's tax liability. Any unused credits may be carried forward for up to ten years. Currently, there is no per project limitation or state-wide annual cap on the amount of tax credits that may be issued or claimed.

As originally enacted during the 1996 Session, the credit could only be claimed against individual, fiduciary, and corporate income taxes. During the 1998 Session, legislation was enacted to expand the credit to apply against the bank franchise tax, the insurance premium license tax, and the tax on public service corporations.

During the 2017 Session, the General Assembly enacted legislation that limited the amount of Historic Rehabilitation Tax Credits that may be claimed by each taxpayer to \$5 million, including any amounts carried over from prior taxable years. This limitation was permanently extended during the 2019 Session.

The table below shows the number of returns claiming the historic rehabilitation tax credit and the total amount claimed for taxable years 2010 through 2020:

Year	Number of Returns	Amount
2010	1,452	\$64,616,330
2011	1,359	\$46,795,338
2012	1,154	\$59,216,385
2013	833	\$23,533,409
2014	932	\$27,102,242
2015	1,038	\$97,998,279
2016	1,095	\$98,069,652
2017	899	\$87,762,096
2018	729	\$69,963,347
2019	811	\$76,560,799
2020	723	\$69,046,958

Proposed Legislation

This bill would increase the maximum amount of the Historic Rehabilitation Tax Credits that a taxpayer may claim per taxable year from \$5 million to \$10 million.

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cc : Secretary of Finance

Date: 1/27/2022 JLOF
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