COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2661-01
Bill No.: SB 778
Subject: Taxation and Revenue - General; Tax Credits; Historic Preservation.
Type: Original
Date: February 5, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	Up to $2,600,000	Up to $2,600,000	Up to $2,600,000
Total Estimated Net Effect on General Revenue Fund	**Up to $2,600,000**	**Up to $2,600,000**	**Up to $2,600,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the bill makes changes to the definition of "eligible property" in 253.545, RSMo. Residential properties located in a district will no longer qualify under the Historic Preservation Tax Credit. Properties being rehabbed for business purposes (and this includes rental housing) and homes that are individually listed on the national register would still qualify for credits. This change should have an unknown impact on the program.

Since the inception of the Historic Preservation Tax Credit program, approximately 2.93% of credits have been issued to residential properties either located in a certified historic district or listed individually on the National Register of Historic Places. Based on an estimated redemption for FY 2005 of $42 million for this program, it is estimated that $1.23 million (2.93% x $42 million) would be for all residential properties. However, it is unknown as to what percentage of these properties would not be listed individually on the National Register of Historic Places. Therefore DED assumes the impact would be an unknown savings to General Revenue starting in fiscal year 2005.

Officials from the **Department of Natural Resources (DNR)** state this proposal would modify the Historic Preservation Tax Credit by limiting the credit to commercial purposes. It would

ASSUMPTION (continued)

continue to be used for residential purposes if the property is a certified historic structure and listed individually on the National Register of Historic Places. DNR assumes the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** assume the proposed legislation should not result in additional costs or savings to their agency. However, this proposal may have a positive impact on Total State Revenue and General Revenue. This proposal removes structures used for residential purposes that are within a historical district but not certified historic structures from those eligible for tax credits. Thus, the language change may reduce the number of residential properties eligible for the Historic Preservation tax credit. We defer to the Department of Economic Development for the fiscal impact to the state.

Officials from the **Department of Revenue - Division of Taxation (DOR)** state they do not anticipate a large number of additional taxpayers that would/could use this credit. Therefore, DOR will not request FTE at this time. However, if the number of additional credits is larger than expected, DOR assume they would need one Tax Processing Tech I for every 4,000 personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers.

Officials from the **Department of Insurance (INS)** state if insurance companies invest or expend on eligible property, they will be eligible for tax credits which reduce premium tax revenues. Premium tax revenue is split 50/50 between GR and County Foreign Insurance Fund or deposited solely into the County Stock Fund depending on the type of company. County Foreign Insurance Fund and County Stock Fund are later distributed to school districts. INS states they cannot determine what impact the limit will have on premium tax credits taken by insurance companies so their response is an unknown fiscal impact to the three funds.

Oversight assumes this proposal will result in a savings to the General Revenue Fund from a decrease in the potential issuance of historic preservation tax credits. Oversight will utilize DED's analysis of 2.93 percent of previous historic preservation tax credits being utilized for residences, however, Oversight will utilize DED's estimate that $89.2 million of these tax credits were issued in FY 2003. Therefore, roughly $2.6 million (2.93% x $89.2 million) of these credits issued were for residential properties. Again, this would encompass properties both on the National Register of Historic Places (still eligible) and those not registered but within a certified historic district (no longer eligible with this proposal). Therefore, Oversight will assume a savings to the General Revenue Fund of up to $2.6 million per year resulting from this proposal.

ASSUMPTION (continued)

The historic preservation tax credits may be applied against taxes in Chapter 148. Therefore, the savings could be realized by funds other than the General Revenue Fund. However, **Oversight** will assume the tax credits issued to residential property owners would not have been utilized against insurance premium taxes.

This proposal could increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Savings - possible reduction in historic preservation tax credits issued based upon new definition of 'eligible property'	Up to $2,600,000	Up to $2,600,000	Up to $2,600,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**UP TO $2,600,000**	**UP TO $2,600,000**	**UP TO $2,600,000**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal modifies the Historic Preservation Tax Credit by limiting the credit to commercial purposes. However, the proposal continues to allow the credit to be used for residential purposes if the property is a certified historic structure and listed individually on the National Register of Historic Places.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

RAS:LR:OD (12/02)

SOURCES OF INFORMATION

Department of Economic Development
Department of Natural Resources
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance

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