

**DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement**

1. **Patron** Alfonso H. Lopez

2. **Bill Number** HB 960

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Income Tax Credit; Historic Rehabilitation
Tax Credit

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would increase the maximum amount of the Historic Rehabilitation Tax Credit 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, 2024.

6. Budget amendment necessary: No.

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

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) and the Department of Historic Resources (“DHR”) consider implementation of this bill as routine and do not require additional funding.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2025. Based on data from prior years, such a change could have an impact ranging from approximately \$5 million to \$15 million annually. However, the number of taxpayers impacted by the current \$5 million per taxpayer cap may vary each year, and it is uncertain to what extent taxpayers would have enough available credits or carryover credits from a previous year to claim credits in excess of \$5 million per taxpayer cap.

Although the Historic Rehabilitation Tax Credit is not subject to a program cap, taxpayers may only receive tax credits for DHR approved projects. As a result, increasing the annual per taxpayer cap on the amount of tax credits a taxpayer can claim from \$5 million to \$10 million would not immediately change the total number of credits available. The long-term revenue impact of this bill would depend on additional projects that are authorized in response to this bill:

- If no additional projects are authorized in response to this bill, the negative revenue impact of increasing the annual per taxpayer cap would be short-term and directly offset by a corresponding decrease in credits claimed in future years.
- However, if additional projects are authorized in response to this bill, the negative revenue impact could be ongoing.

Because it is unknown if any additional future projects may be authorized due to an increase in demand for Historic Rehabilitation Tax Credits resulting from the proposed higher annual per taxpayer cap, it is unknown whether the estimated \$5 million to \$15 million a year negative revenue impact of this bill would be short-term or ongoing.

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 nonrefundable 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 the Historic Rehabilitation Tax Credit 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.

Proposed Legislation

This bill would increase the maximum amount of the Historic Rehabilitation Tax Credit 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, 2024.

Similar Legislation

SB 556 is substantially similar to this bill, but it allows an additional \$10 million in credits per year to be claimed for projects in localities containing an enterprise zone.

cc : Secretary of Finance

Date: 1/28/2024 SJH
HB960F161