Fiscal Note & Local Impact Statement

126 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. Sub. H.B. 149**

DATE: **December 14, 2006**

STATUS: **As Enacted – Effective April 4, 2007 (certain sections effective May 1, 2007)**

SPONSOR: **Rep. Calvert**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Authorizes refundable tax credits for rehabilitating historic buildings; exempts from the sales and use tax property used to clean dairy processing equipment**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential loss between $19 and $40 million depending on the number and total cost of projects approved	Potential loss between $19 and $40 million depending on the number and total cost of projects approved
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2006 is July 1, 2005 – June 30, 2006.

- The historic building rehabilitation tax credit would reduce revenues collected from the dealers in intangible tax, the personal income tax, and the corporate franchise tax.
- Under the Revised Code formulas for the distribution of tax revenues, the General Revenue Fund would bear 89.5% of any loss in personal income tax revenue and 95.2% of any loss in corporate franchise tax revenue. The GRF will forego 37.5% of revenues from nonqualifying dealers and all revenues from qualifying dealers in intangibles.
- The tax exemption for property used to clean dairy processing equipment will decrease revenue from the sales and use tax. Under the Revised Code formulas for the distribution of tax revenues, the GRF would bear 95.2% of the loss in sales and use tax revenues.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2006	FY 2007	FUTURE YEARS
Counties, Municipalities, Townships (LGF, LGRAF, LLGSF)			
Revenues	- 0 -	Potential loss between $2 and $7 million depending on the number and total cost of projects approved	Potential loss between $2 and $7 million depending on the number and total cost of projects approved
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The historic building rehabilitation tax credit would reduce revenues collected from the dealers in intangible tax, the personal income tax, and the corporate franchise tax.

- Under the Revised Code formulas for the distribution of tax revenues, the reduction in personal income tax and corporate franchise tax revenues would reduce distributions to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF). The County Undivided Local Government Fund (CULGF) generally receives 63.5% of revenues from the tax on nonqualifying dealers in intangibles. However, the rehabilitation tax credits will only reduce the amounts credited to the GRF and not amounts that would be distributed to the CULGF.

- The exemption for property used to clean dairy processing equipment will decrease revenue from the state sales and use tax. Under the Revised Code formulas for the distribution of tax revenues, the reduction in sales and use tax revenues would decrease distributions to the LGF and to the LGRAF.

- The exemption for property used to clean dairy processing equipment will also decrease revenue from the local permissive county sales and use tax and from the transit authority taxes.

Detailed Fiscal Analysis

<u>Historic rehabilitation tax credit</u>

The bill authorizes a refundable tax credit against the corporate franchise tax, personal income tax, and the dealers in intangibles tax for rehabilitating historic buildings. The credit equals 25% of the dollar amount of the taxpayer's "qualified rehabilitation expenditures." The bill prescribes the procedure for applying for and reviewing applications for rehabilitation tax credit certificates. Taxpayers claiming the credit shall retain the credit certificate for four years following the end of the tax year to which the credit was applied.

In order to qualify for the tax credit for rehabilitating historic buildings the building must be either listed on the national register of historic places, or it must be located in a certified historic district. The Ohio Historic Preservation Office estimates that there are approximately 52,000 buildings in Ohio that fit this description. Owners of historic buildings may apply to the State Preservation Officer for a tax credit certificate. The two application periods are between July 1, 2007 through June 30, 2008, and from July 1, 2008 through June 30, 2009. The Director of Development shall prescribe the form and manner of filing such applications. The State Historic Preservation Officer shall forward the applications to the Director of Development who shall review them to determine if they meet certain criteria listed in the bill.

An applicant shall demonstrate to the satisfaction of the State Historic Preservation Officer and the Director of Development that the rehabilitation will satisfy various criteria before the start of the physical rehabilitation of the historic building. The bill requires the Director of Development, in conjunction with the Tax Commissioner, to conduct a cost and benefit analysis to determine if the rehabilitation of a historic building will result in a net revenue gain in state and local taxes once the building is used. A rehabilitation tax credit cannot be issued before the rehabilitation of the historic building is complete. The property owner must obtain a tax credit certificate to apply the tax credit against the corporate franchise tax, the individual income tax, or the dealers in intangibles tax.

The bill requires the Director of Development and the Tax Commissioner to jointly submit reports on the tax credit program to the General Assembly before the first day of December 2007, 2008, and 2009. The bill also requires the Director of Development and the Tax Commissioner to jointly submit a more comprehensive report on or before December 1, 2010, which includes a detailed analysis of the effectiveness of the tax credits for rehabilitating historic buildings. This report shall be prepared with the assistance of an economic research organization. This requirement may increase expenditures for the Department of Development, the Department of Taxation, or both. The requirement to review applications may also increase expenditures for the State Historic Preservation Officer.

Exhibit 1 provides the total number of projects, the total amount of Ohio qualified rehabilitation expenditures,[16] the value of the federal tax credits (20% of qualified expenditures),

[16] Historic Rehabilitation Database of the Ohio Historic Preservation Office. This database contains detailed listings of all rehabilitation projects completed in Ohio.

and the estimated value of Ohio tax credits (had H.B. 149 been in place from CY 2001 to CY 2005). Total credits are the sum of federal and estimated Ohio credits.

Exhibit 1: Number of Projects, Qualified Rehabilitation Expenditures, and Estimated Value of the Federal and Ohio Tax Credits (dollars in millions)						
	Total Number of Projects	**Total Expenditures**	**Average Expenditure Per Project**	**Federal Tax Credits**	**Ohio Tax Credits**	**Total Credits**
CY 2005	69	$179.3	$2.6	$35.9	$44.8	$80.7
CY 2004	48	$94.2	$2.0	$18.8	$23.6	$42.4
CY 2003	73	$236.6	$3.2	$47.3	$59.2	$106.5
CY 2002	61	$85.8	$1.4	$17.1	$21.5	$38.6
CY 2001	51	$93.2	$1.8	$18.6	$23.3	$41.9

Under the Revised Code formulas for the distribution of state tax revenues, the General Revenue Fund (GRF) bears 89.5% of any loss of personal income tax revenue, and 95.2% of any loss of corporate franchise tax revenue. The GRF will forego 37.5% of tax revenues from nonqualifying dealers in intangibles and all receipts from the dealers in intangibles tax on qualifying dealers.[17] LSC expects that most of the credits will be applied against the personal income tax and the corporate franchise tax.

Based on "qualified" rehabilitation expenditures between CY 2001 through CY 2005, the annual state revenue loss may be between $21 million and $45 million each year. The GRF revenue loss may be between $19 million and $40 million. However, the revenue loss may potentially be higher if the bill induces more projects or more expensive projects. The actual state revenue loss will depend on the number of applications approved and the total cost of rehabilitation projects that qualify for the tax credit.

Under the Revised Code formulas for the distribution of tax revenues, the reduction revenues from the personal income tax and corporate franchise tax would decrease distributions to the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF). The LLGSF receives 5.7% of personal income tax revenues. The LGRAF receives 0.6% of revenues from the personal income and corporate franchise taxes. The LGF receives 4.2% of receipts from the personal income and corporate franchise taxes. Revenue losses to local governments may be between $2 million and $7 million per year. However, the local government revenue loss may potentially be higher if the bill induces more projects or more expensive projects.

The dealer in intangibles tax paid by nonqualifying dealers is distributed to the GRF and the County Undivided Local Government Fund (CULGF). The CULGF generally receives 63.5% of revenues from the tax on nonqualifying dealers in intangibles. However, the tax credits will not reduce the amounts credited to the CULGF, so the tax credits will only be applied

[17] A qualifying dealer is a dealer in intangibles that is a member of a controlled group of which a financial institution or insurance company is also a member. The dealers in intangibles tax paid by qualifying dealers is credited to the General Revenue Fund.

against amounts credited to the GRF. Thus, local governments will not incur losses from tax credits applied against the dealers in intangibles tax.

Sales and use tax exemption for property used to clean dairy processing equipment

The bill exempts from the sales and use tax equipment and supplies used to clean processing equipment that is part of a continuous manufacturing operation to produce milk, ice cream, yogurt, cheese, and similar dairy products for human consumption.

The exemption for property used to clean dairy processing equipment decreases the sales and use tax base and will reduce revenue from the sales and use tax. Under the Revised Code formulas for the distribution of tax revenues, the GRF would bear 95.2% of the loss in sales and use tax revenues. Under the Revised Code formulas for the distribution of tax revenues, the reduction in sales and use tax revenues would reduce distributions to the Local Government Fund (LGF, 4.2%) and to the Local Government Revenue Assistance Fund (LGRA, 0.6%).

The reduction in the sales and use tax base will also decrease revenues from the local permissive sales and use tax, and from the tax imposed by transit authorities.

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