Department of Finance and Administration

Legislative Impact Statement

Bill: HB1410
Bill Subtitle: TO AMEND AND EXPAND THE ARKANSAS CENTRAL BUSINESS IMPROVEMENT DISTRICT REHABILITATION AND DEVELOPMENT INVESTMENT TAX CREDIT ACT.

Basic Change : Sponsor: Rep. Sabin

This bill changes the maximum amount of investment subject to a 25% income tax credit in a central business improvement district project from $500,000 for income-producing property and $200,000 for nonincome-producing property to $2,000,000 for both income and nonincome producing property. It also removes the provision that taxpayers receiving an investment tax credit cannot claim any other state or local tax credit or deduction based on qualified rehabilitation or development expenditures except for regular depreciation. The bill increases the maximum credits that can be issued from $1,000,000 to $5,000,000 in any one fiscal year, and increases maximum credits to $10,000,000 for fiscal years beginning July 1, 2017 and after. DFA shall maintain records of the credits which shall be awarded on a first come, first served basis. The requirement that the Chief Fiscal Officer of the State must certify that there is sufficient funding is removed by this bill. The bill is effective July 31, 2015.

Revenue Impact :

FY2016 of $3M reduction to General Revenue

FY2017 of $5M reduction to General Revenue

FY2018 and after of $10M per year reduction to General Revenue

Taxpayer Impact :

The Arkansas Central Business Improvement District Rehabilitation and Development Investment Tax Credit is expanded for taxpayers with a credit that can generate increased tax savings. Also, taxpayers who received an investment tax credit may now claim any other state or local tax credit or deduction and for normal depreciation of approved project costs.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided.

Procedural Changes :

Tax forms and instruction booklets will need to be updated. Employees will need training on the new requirements and amounts of the credit as well as the tax community.

Other Comments :

The bill does not provide for any agency to oversee the issuance of tax credits prior to the filing of a tax return. Instead, each central business improvement district determines eligibility for the tax credit. Consequently, multiple projects may be underway in various cities around the state with each project participant thinking they will receive the tax credit when their project is complete. Some of those taxpayers may ultimately be denied the tax credit if projects in other cities use the entire amount of tax credit before the taxpayer files their return to claim their portion of the credit. To avoid this potential, a single entity should be designated the recipients the tax credits before the expenditures are made.

The bill does not state whether projects approved after the maximum annual credit will receive credits in the following fiscal year or will be ineligible for the credit. Removing the prohibition against claiming other state credits will result in some smaller projects receiving a 25% credit from a central business improvement district, 25% from the state historic rehabilitation credit and 20% from the federal historic

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rehabilitation credit in addition to federal, state and local grants

Legal Analysis :

HB1410 is identical to HB1981 of 2013. HB1410 changes terms of the rehabilitation tax credit as follows:

(1) Increases the amount of expenditures available for the credit from $500,000 to $2M on both income and non-income producing properties substantially expanding the applicability of the credit.

(2) Repeals the prohibition against a taxpayer receiving another state or local tax credit if already receiving the CBID Rehabilitation credit.

(3) Increases the amount of tax credits that may be issued in a fiscal year from $1M to $10M; and

(4) Repeals the sufficient funding trigger for the credit making the tax credit effective on July 31, 2015.

HB1410 amends § 26-51-2407, which provides an investment income tax credit for any taxpayer incurring costs and expenses that are qualified rehabilitation or development expenditures of eligible central business improvement district property. Currently, this credit is equal to 25% of the qualified rehabilitation on income-producing property or up to the first $200,000 on non-income producing property. As amended by this bill, the Code section would allow an expenditure limit of $2M for both income producing and non-income producing property. The bill also removes the statutory provision that a recipient of the tax credit may not claim any other local or state tax credit or deduction based on these expenditures except for normal depreciation. This change would allow a taxpayer to receive more than one tax credit or incentive based on the same expenditure.

The bill raises the limit of the amount of tax credits that may be issued in one year from $1M to $10M, though the provision specifying both $5M and &10M is not entirely clear.

Currently, the tax credit will be authorized only if the Director determines that there is sufficient funding for this credit. HB1410 repeals that conditional trigger and makes the Central Business Improvement District Rehabilitation Credit effective on July 31, 2015.