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SFA**BILL ANALYSIS**

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Senate Bills 888 and 889 (as reported without amendment)
Sponsor: Senator John J. H. Schwarz, M.D.
Committee: Finance

CONTENT

Senate Bill 888 would amend the Single Business Tax Act, and Senate Bill 889 would amend the Income Tax Act to revise provisions under the Acts regarding the credits allowed for historic preservation.

Currently, a qualified taxpayer may claim a credit against either or both taxes for qualified expenditures made for the rehabilitation of a "historic resource", that is, a publicly or privately owned historic building, structure, site, object, feature, or open space located within a historic district as designated by the National Register of Historic Places, the State Register of Historic Sites, or a local unit that established a historic district under the Local Historic Districts Act; or, a historic building, structure, etc., that is listed individually on the National or State Register. The credit is equal to 25% of the qualified expenditures, and may be claimed for tax years beginning after 1998 and before 2003.

The credit may be claimed in the year in which a rehabilitated historic resource is placed in service; or the year in which a final payment of qualified expenditures is made if the project is a phased project and construction is planned for two to five years. The bills specify that a project would have to begin before January 1, 2003. Currently, if the credit allowed for the tax year, and any unused carryforward of the credit, exceeds the taxpayer's tax liability for the tax year, the portion that exceeds the tax liability may not be refunded but may be carried forward to offset tax liability in subsequent tax years, for 10 years or until used up, whichever occurs first. Under the bills, a carryforward could be claimed in tax years that began after 2002, for a credit based on a project that began before 2003. The Acts provide that the total of the credits claimed by a taxpayer under both Acts may not exceed 25% of the total qualified expenditures eligible for the credit. Under the bills, the total credits claimed for a single project could not exceed 25% of the total qualified expenditures for that single project.

Currently, to claim a credit a qualified taxpayer must have qualified expenditures for the rehabilitation of the resource equal to or greater than 10% of the State equalized valuation (SEV) of the property. If the historic resource is a portion of a historic or nonhistoric resource, the SEV of only that portion of the property must be used. If the assessor for the appropriate local tax assessing unit determines the SEV of that portion, that determination must be used; if the assessor does not determine the SEV, then qualified expenditures must be equal to or greater than 5% of the appraised value as determined by a certified appraiser. The bills further provide that if the historic resource to be rehabilitated did not have an SEV, qualified expenditures would have to be equal to or greater than 5% of the appraised value of the resource as determined by a certified appraiser.

Under the Acts, the Michigan Historical Center may inspect a historic resource at any time during the rehabilitation process and revoke certification if the rehabilitation is not undertaken as represented in the rehabilitation plan, or if unapproved alterations to the completed rehabilitation are made during the five years after the tax year in which the credit was claimed. The bills provide that if a certificate were revoked less than five years after a credit was claimed, a percentage of the credit amount previously claimed would have to be added back to the tax liability of the taxpayer in the year of the sale. If the revocation were less than one year after the year in which the credit was claimed, the taxpayer would have to add back 100% of the credit. If the revocation were made at least one year but less than two years after the credit was claimed, the taxpayer would have to add back 80%; between two and three years, 60%; three and four years, 40%; four and five years, 20%. After five years the taxpayer would not have to add back to his or her liability.

206.266 (S.B. 889)

FISCAL IMPACT

These bills would not have a measurable impact on the cost of these income tax and single business tax historic preservation tax credits.

Date Completed: 12-1-99

Fiscal Analyst: J. Wortley

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