House BILL NO. 535

INTRODUCED BY Harrington Lynch Lumbar Jacobson Pavlovich

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING AN INCOME TAX OR CORPORATE LICENSE TAX CREDIT FOR THE PRESERVATION OF HISTORIC BUILDINGS; PROVIDING THAT THE AMOUNT OF THE CREDIT IS 25 PERCENT OF THE CREDIT ALLOWED UNDER FEDERAL INCOME TAX LAWS; AND PROVIDING AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Credit for preservation of historic buildings.** (1) (a) There is allowed as a credit against the taxes imposed by 15-31-101, 15-31-121, and 15-31-122 a percentage of the credit allowed for qualified rehabilitation expenditures, with respect to any certified historic structure located in Montana, as provided in section 47 of the Internal Revenue Code or as section 47 may be renumbered or amended.

(b) The amount of the credit allowed for a tax year is 25% of the amount of the credit determined under section 47(a)(2) of the Internal Revenue Code or as section 47(a)(2) may be renumbered or amended.

(2) The credit allowed by this section may not be refunded if the taxpayer has a tax liability less than the amount of the credit. If the sum of credit carryovers from the credit, if any, and the amount of credit allowed by this section for the tax year exceeds the taxpayer's tax liability for the current tax year, the excess attributable to the current tax year's credit is a credit carryover to the 7 succeeding tax years. The entire amount of unused credit must be carried forward to the earliest of the succeeding years, and the oldest available unused credit must be used first.

(3) If the credit under this section is claimed by a small business corporation, as defined in 15-31-201, or a partnership, the credit must be attributed to shareholders or partners, using the same proportion used to report the corporation's or partnership's income or loss for Montana income tax purposes.

NEW SECTION. **Section 2. Credit for preservation of historic buildings.** (1) There is allowed as a credit against the taxes imposed by 15-30-103 a percentage of the credit allowed for qualified rehabilitation expenditures with respect to any certified historic structure located in Montana as provided in [section 1].

(2) The credit may not be allocated between spouses unless the property is used by a small business corporation or a partnership in which they are shareholders or partners.

NEW SECTION. **Section 3. Codification instructions.** (1) [Section 1] is intended to be codified as an integral part of Title 15, chapter 31, and the provisions of Title 15, chapter 31, apply to [section 1].

(2) [Section 2] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section 2].

NEW SECTION. **Section 4. Applicability.** [This act] applies to tax years beginning after December 31, 1995.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0535, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
An act allowing an income tax or corporate license tax credit for the preservation of historic buildings, providing that the amount of the credit is 25 percent of the credit allowed under federal income tax laws, and providing an applicability date.

ASSUMPTIONS:
1. This legislation applies to tax years beginning January 1, 1996.
2. The legislation provides a Montana tax credit for both the individual income tax and the corporation license tax of 25 percent of the federal credit for rehabilitation expenditures for certified historical structures; this provision of federal law is part of the overall investment tax credit.
3. The 1996 and 1997 projected levels of federal tax credits related to rehabilitation expenditures for the individual and corporate income tax combined are roughly $60 million for each year (Joint Committee on Taxation, U.S. Congress).
4. The population of Montana in 1994 was 856,000 or 0.3 percent of total U.S. population of 260 million (U.S. Bureau of the Census).
5. Based on Montana's share of the U.S. population, $60 million in federal tax credits nationally translates to approximately $180,000 in federal credits applicable just to Montana (MDOR).
6. The relationship of the amount of the general investment tax credit taken by individuals as compared with corporations at the federal level was approximately 20% (individuals) to 80% (corporations) in the early 1980s, when this provision of federal law was fully operational (Internal Revenue Service, U.S. Department of the Treasury).
7. Allocating the $180,000 between individuals and corporations using the 20/80 relationship yields $36,000 for individuals and $144,000 for corporations (MDOR).
8. Applying the 25 percent factor contained in the proposed legislation to these estimated Montana federal credits results in $9,000 in credits per year for the individual income tax and $36,000 for the corporation license tax (MDOR).
9. The first year of credits with a negative impact on collections for the individual income tax will be FY97 (tax year 1996); the first effect on the corporate license tax with be in connection with returns filed in May and June 1997 (part of FY97), for calendar 1996 returns (due May 15, 1997) and tax year February 1, 1996--January 31, 1997 returns (due June 15, 1997).
10. 30 percent of corporate license tax collections are related to returns filed in May and June of a specific fiscal year; 30 percent of $36,000 is $10,800 , the estimated FY97 negative revenue impact for the corporation license tax (MDOR).
11. This legislation will require an additional line on the corporation license tax form. To implement this change will require $1,500 in contract programming costs in FY 96, and ongoing computer storage costs of $50 per year (MDOR).

Dave Lewis 2.17.95
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

DAN HARRINGTON, PRIMARY SPONSOR DATE
Fiscal Note for HB0535, as introduced

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FISCAL IMPACT:

Expenditures: (Department of Revenue)

	FY96 Difference	FY97 Difference
Operating Costs	$1,550	$50

Revenues:

	FY96 Difference	FY97 Difference
Individual Income Tax	0	($9,000)
Corporation License Tax	0	(10,800)
Total	0	($19,800)

Net Impact:

	FY96	FY97
	($1,550)	($19,850)

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

FY98 will be the first year that the full negative revenue effect on the corporation license tax will be evident, roughly $36,000; the negative revenue impact for the individual income tax will be approximately $9,000 for FY98, yielding a total negative revenue impact of around $45,000.

APPROVED BY COM
ON TAXATION

HOUSE BILL NO. 535

INTRODUCED BY HARRINGTON, LYNCH, QUILICI, JACOBSON, SHEA, PAVLOVICH

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<u>NEW SECTION.</u> **Section 2. Credit for preservation of historic buildings.** (1) There is allowed as a credit against the taxes imposed by 15-30-103 a percentage of the credit allowed for qualified

SECOND READING

rehabilitation expenditures with respect to any certified historic structure located in Montana as provided in [section 1].

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(2) [Section 2] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section 2].

NEW SECTION. **SECTION 4. CONTINGENT VOIDNESS.** IN ORDER TO MAINTAIN A BALANCED BUDGET, BECAUSE [THIS ACT] REDUCES REVENUE, IT MAY NOT BE TRANSMITTED TO THE GOVERNOR UNLESS A CORRESPONDING IDENTIFIED REDUCTION IN SPENDING IS CONTAINED IN HOUSE BILL NO. 2. IF A CORRESPONDING IDENTIFIED REDUCTION IN SPENDING IS NOT CONTAINED IN HOUSE BILL NO. 2, [THIS ACT] IS VOID.

NEW SECTION. **Section 5. Applicability.** [This act] applies to tax years beginning after December 31, 1995.

NEW SECTION. **SECTION 6. EFFECTIVE DATES.** (1) EXCEPT AS PROVIDED IN SUBSECTION (2), [THIS ACT] IS EFFECTIVE DECEMBER 31, 1995.

(2) [SECTION 3] AND THIS SECTION ARE EFFECTIVE ON PASSAGE AND APPROVAL.

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