Senate

General Assembly

File No. 717

January Session, 2005

Substitute Senate Bill No. 1322

Senate, May 5, 2005

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING TAX CREDITS FOR REHABILITATING HISTORIC STRUCTURES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective July 1, 2005, and applicable to tax years beginning January 1, 2005*) (a) As used in this section, the following terms shall have the following meanings unless the context clearly indicates another meaning:

(1) "Commission" means the Connecticut Commission on Culture and Tourism established under section 10-392 of the general statutes;

(2) "Certified historic structure" means an historic property that: (A) Is listed individually on the National or State Register of Historic Places, or (B) is located in a district listed on the National or State Register of Historic Places, and has been certified by the commission as being of historic significance to the district contributing to the historic character of such district;

(3) "Certified rehabilitation" means any rehabilitation of a certified historic structure that includes residential use consistent with the historic character of such property or the district in which the property is located as determined by regulations adopted by the commission;

(4) "Owner" means any person, firm, limited liability company, nonprofit or for-profit corporation or other business entity which possesses title to an historic structure and undertakes the rehabilitation of such structure;

(5) "Placed in service" means that substantial rehabilitation work has been completed which would allow for issuance of a certificate of occupancy for the entire building or for individual residential units that are an identifiable portion of the building;

(6) "Qualified rehabilitation expenditures" means any costs incurred for the physical construction involved in the rehabilitation of a certified historic structure for residential use, excluding: (A) The owner's personal labor, (B) the cost of a new addition, except as required to comply with any provision of the State Building Code or the State Fire Safety Code, and (C) any nonconstruction cost such as architectural fees, legal fees and financing fees;

(7) "Rehabilitation plan" means any construction plans and specifications for the proposed rehabilitation of a certified historic structure in sufficient detail for evaluation by compliance with the standards developed under the provisions of subsections (b) to (d), inclusive, of this section; and

(8) "Substantial rehabilitation" or "substantially rehabilitate" means the qualified rehabilitation expenditures of a certified historic structure that exceed twenty-five per cent of the assessed value of such structure.

(b) The commission shall administer a system of tax credit vouchers within the resources, requirements and purposes of this section for owners rehabilitating certified historic structures. The credit authorized by this section shall be available in the tax year in which the substantially rehabilitated certified historic structure is placed in service. If the tax credit is more than the amount owed by the taxpayer for the year in which the substantially rehabilitated certified historic structure is placed in service, the amount that is more than the taxpayer's tax liability may be carried forward and credited against the taxes imposed for the succeeding five years or until the full credit is used, whichever occurs first.

(c) The commission shall develop standards for the approval of rehabilitation of certified historic structures for which a tax credit voucher is sought. Such standards shall take into account whether the rehabilitation of a certified historic structure will preserve the historic character of the building.

(d) The commission shall adopt regulations, in accordance with chapter 54 of the general statutes, to carry out the purposes of this section. Such regulations shall include provisions for filing of applications and for timely approval by the commission.

(e) Prior to beginning any rehabilitation work on a certified historic structure, the owner shall submit (1) a rehabilitation plan to the commission for a determination of whether or not such rehabilitation work meets the standards developed under the provisions of subsections (b) to (d), inclusive, of this section, and (2) an estimate of the qualified rehabilitation expenditures. The provisions of this subsection shall not disqualify applications for tax credits for certified historic structures for which rehabilitation commenced but were not placed in service before the effective date of this section.

(f) If the commission certifies that the rehabilitation plan conforms to the standards developed under the provisions of subsections (b) to (d), inclusive, of this section, the commission shall reserve for the benefit of the owner an allocation for a tax credit equivalent to twenty-five per cent of the projected qualified rehabilitation expenditures, not exceeding two million dollars.

(g) Following the completion of rehabilitation of a certified historic structure, the owner shall notify the commission that such rehabilitation has been completed. The owner shall provide the commission with documentation of work performed on the certified historic structure and shall submit certification of the costs incurred in rehabilitating the certified historic structure. The commission shall review such rehabilitation and verify its compliance with the rehabilitation plan. Following such verification, the commission shall issue a tax credit voucher to the owner rehabilitating the certified historic structure or to the taxpayer named by the owner as contributing to the rehabilitation. The tax credit voucher shall be in an amount equivalent to the lesser of the tax credit reserved upon certification of the rehabilitation plan under the provisions of subsection (f) of this section or twenty-five per cent of the actual qualified rehabilitation expenditures not exceeding two million dollars. In order to obtain a credit against any state tax due that is specified in subsections (h) to (k), inclusive, of this section, the holder of the tax credit voucher shall file the voucher with the holder's state tax return.

(h) The Commissioner of Revenue Services shall grant a tax credit to a taxpayer holding the tax credit voucher issued under subsections (e) to (i), inclusive, of this section against any tax due under chapter 207, 208, 209, 210, 211 or 212 of the general statutes in the amount specified in the tax credit voucher. Such taxpayer shall submit the voucher and the corresponding tax return to the Department of Revenue Services.

(i) The tax credit issued under subsection (h) of this section shall be taken by the holder of the tax credit voucher in the same tax year in which the certified historic structure was placed in service. Any unused portion of such credit may be carried forward to any or all of the four taxable years following the year in which the tax credit voucher is issued.

(j) The aggregate amount of all tax credits which may be reserved by the commission upon certification of rehabilitation plans under subsections (b) to (d), inclusive, of this section shall not exceed ten million dollars in any one fiscal year.

(k) The commission may charge an application fee in an amount not to exceed two thousand five hundred dollars to cover the cost of administering the program established pursuant to this section for the administration of the program.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2005, and applicable to tax years beginning January 1, 2005*	New section

FIN *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 06 $	FY 07 $
Department of Revenue Services	GF - Revenue Loss	None	Up to $10 million
Department of Revenue Services	GF - Cost	150,000	None
CT Historical Com.	GF - Cost	Potential	Potential
CT Historical Com.	GF - Revenue Gain	Potential	Potential

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill establishes a new credit program for rehabilitating historic structures other than owner occupied homes. The bill caps the total amount of credits that may be awarded in any fiscal year at $10 million. Therefore, there could be a General Fund revenue loss of up to $10 million beginning in FY 07.

The Department of Revenue Services is expected to incur one-time costs of $150,000 in FY 06 to: (1) make necessary programming changes, and (2) modify tax forms and publications.

To the extent that the tax credit program established in the bill results in over 5 or 6 applications per year, the Commission on Culture and Tourism will require a Grant Administrator at a cost of $60,000 plus fringe benefits in FY 06 and FY 07. Since the legislation allows the Commission to charge applicants up to $2,500 to cover the cost of administering the historic structure credits, some of the costs would be offset. It should be noted that the bill does not specify that the applicants' fees will be deposited in a separate account within the General Fund for the agency's use.

OLR Bill Analysis
sSB 1322

AN ACT CONCERNING TAX CREDITS FOR REHABILITATING HISTORIC STRUCTURES

SUMMARY:

The bill establishes a business tax credit for rehabilitating historic structures, if the rehabilitation includes residential uses. The new credit is separate from a similar existing credit for rehabilitating or contributing to the rehabilitation of an owner-occupied one-to-four family historic home. In both cases, the credits may used against the corporation tax and similar taxes on air carriers and insurance, railroad, express, telegraph, cable, cable TV, and utility companies.

As with the existing historic home credit, the Connecticut Commission on Culture and Tourism (CCCT) administers the new credit. The bill requires the commission to develop standards for rehabilitation plans, and once it certifies that a structure's rehabilitation plan conforms to those standards, requires it to reserve a tax credit allocation for the project equivalent to 25% of the projected qualified rehabilitation expenditures, up to $2 million. The commission may reserve no more than $10 million in aggregate historic structure credits for all owners in any fiscal year. The existing historic home credits are 30% of expenditures up to $30,000 per dwelling unit, with an aggregate maximum for all credits of $3 million per year.

The structure's owner can take the credit in the tax year in which the substantially rehabilitated certified historic structure is placed in service. As with the historic home credits, any unused part of the credit may be carried forward for the next four taxable years. Under the bill, an owner can be a person or a for-profit or nonprofit business entity that holds title to an historic structure and rehabilitates it.

The bill allows the commission to charge applicants for the historic structure credits an application fee of up to $2,500 to cover its cost of administering the historic structure credits.

EFFECTIVE DATE: July 1, 2005, and applicable to tax years beginning

January 1, 2005.

CERTIFIED HISTORIC STRUCTURE

To be eligible for a credit, an historic structure must be (1) listed on the National or State Register of Historic Places or (2) located in a listed district and certified by the CCCT as being historically significant to it or as contributing to its historic character. The bill also requires the rehabilitated structure to include residential units consistent with its or its district's historic character.

CREDIT APPLICABILITY

Under the bill, credits are available to a credit holder in the year a rehabilitated structure is placed in service. This occurs when (1) qualified rehabilitation expenditures exceed 25% of the structure's assessed value and (2) enough work has been completed to allow a certificate of occupancy to be issued for either the whole building or for individual residential units in an identifiable part of it.

As is the case with the historic home credits, the structure's owner, before beginning work must submit to the commission a rehabilitation plan that meets the commission's standards and an estimate of the qualified rehabilitation expenditures. But the bill also allows structures to be eligible for the credit even if work starts before the bill takes effect.

QUALIFIED REHABILITATION EXPENDITURES

The bill defines "qualified rehabilitation expenditures" as all physical construction costs other than (1) the owner's personal labor; (2) costs of a new addition unless required to comply with the state fire or building code; and (3) non-construction costs such as architectural, legal, and financial fees.

COMMISSION STANDARDS AND REGULATIONS

The bill requires the CCCT to develop standards for approving rehabilitations of structures seeking the credit and to adopt regulations to carry out the new credit requirements. The standards must address whether the rehabilitation will preserve the building's historic character. The regulations must include provisions for filing credit applications and their timely approvals by the commission.

RECEIVING CREDITS

Once the structure's rehabilitation is complete (see COMMENT), the bill requires the owner to notify the commission, provide documentation of the work, and certify the costs. The commission must review the rehabilitation and verify compliance with the rehabilitation plan. After verification, the commission must issue a voucher for the tax credit, either to the owner or to a taxpayer he names who contributed to the rehabilitation, equal to the lesser of (1) the amount reserved or (2) 25% of the actual qualified rehabilitation expenditures up to $2 million. The recipient must file the credit voucher with his tax return.

COMMENT

Timing of Credit Approval and Use of Credit

Subsections (b) and (i) of the bill make the credit available in the year the substantially rehabilitated structure is "placed in service." It defines this as when the structure becomes eligible for a certificate of occupancy for the whole building or for individual residential units, after qualified rehabilitation expenditures equal to 25% of the building's assessed value. Thus, it appears that a structure could be placed in service before all rehabilitation work is finished. But subsection (g) appears to require that all the work be finished before the credit is issued. This subsection, which describes the procedure for obtaining the credit voucher, requires (1) the owner to notify the commission that the rehabilitation work is complete and (2) the commission to verify that the work has been done according to the plan before issuing the credit voucher.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 45 Nay 2