DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

March 31, 2021

Honorable Chuck Hufstetler
Chairman, Senate Finance
121 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 469 (LC 43 2035S)

Dear Chairman Hufstetler:

The bill makes two modifications to the state Historic Rehabilitation Tax Credit under O.C.G.A. §48-7-29.8. The existing $25 million annual cap, which currently only applies to projects earning credits in excess of $300,000, applies to all projects. Under current law, projects generating less than $300,000 in credits are not subject to a cap. The bill adds a sunset provision repealing this code section effective December 31, 2022.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by $1.5 million in FY 2022; however, state revenue would increase by $9.8 million in FY 2026 (Table 1). The attached appendix provides details of the analysis.

Table 1. Credits Utilized* and Net Revenue Effect by State Fiscal Year

($ *millions*)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	**5-yr Total**
Current Law	$2.2	$5.8	$8.5	$11.3	$14.1	**$42.1**
HB 469	$3.8	$5.9	$4.4	$4.4	$4.4	**$22.8**
Net Revenue Effect	-$1.5	-$0.1	$4.2	$6.9	$9.8	**$19.2**

* does not include utilization of pre-2022 credits carried forward

Impact on State Expenditures
The Department of Revenue (DOR) would implement the provisions of the bill with existing resources.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

O.C.G.A. §48-7-29.8, under current law, provides for a credit for the rehabilitation of historic structures generally equal to 25 percent of qualified rehabilitation expenditures, plus an added 5 percent for projects in a target area, as defined. Credits for projects involving historic homes cannot exceed $100,000 over a 120-month period. The maximum credit for other projects is generally $5 million, but in the case of projects that create 200 or more full-time jobs or $5 million in annual payroll within two years of being placed in service, the maximum credit equals $10 million.

Projects earning credits in excess of $300,000 are subject to an overall state limitation of $25 million annually and are referred to as capped credits. Projects earning credits of $300,000 or less are not subject to this overall aggregate cap and are referred to as uncapped credits. Thus, the limit on the number of annual awards of uncapped credits is based on the number of successfully certified projects.

Lastly, under current law, in the case of credits generated from the rehabilitation of historic homes, credits in excess of the tax liability otherwise owed by the taxpayer for the year may be carried forward for 10 years after the taxable year in which the certified project has been completed. Alternatively, credits may be sold or transferred one time to another taxpayer, subject to various information requirements to document the transfer. On the other hand, credits generated from the rehabilitation of historic structures (capped or uncapped) cannot be carried forward but can be transferred or sold.

After December 31, 2021, however, the revisions to this code section made in 2015 (HB 308) are automatically repealed such that the structure of this credit reverts to the structure in place prior to the effectiveness of that 2015 bill. In particular, the state aggregate cap of $25 million is eliminated, but the maximum credit allowed for any project other than historic homes once again equals $300,000. In addition, the ability of taxpayers earning credits on rehabilitation of historic home will no longer be able to sell or transfer unused credits except to a buyer of the home, subject to recapture provisions of subsection (h) of the code section.

HB 469 makes several modifications to the state Historic Rehabilitation Tax Credit as follows:

- Section 2 of the bill repeals Section 2 of Ga. L. 2015, p. 1340, the language from the 2015 session's HB 308 that has the effect of causing this credit to revert to the structure in place in 2015, prior to the effectiveness of that law.
- The legislation modifies the structure of the credit such that the existing $25 million cap applies to all projects, including structures generating credits less than $300,000 and historic homes.
- The bill adds, in line 194, a sunset provision such that this code section is repealed in its entirety effective December 31, 2022. This repeal would eliminate all future state historic rehabilitation credits after that date.

The net effect of these changes is to maintain the current credit structure in all respects except for the application of the $25 million cap to all projects, but only for one year, after which the ability to earn new credits will cease. To the extent that reversion on January 1, 2022, to the pre-2016 structure of the credit would have resulted in a reduction in total new credits earned in 2022 compared to those earned under 2016-21 law, these changes could be expected to partially eliminate that reduction and increase the cost of the credit for one year before repealing it entirely.

The current-law baseline for the historic homes portion of this credit is estimated as follows:

- Data from the Department of Community Affairs (DCA) indicate that from 2011 through 2020, final certifications (completed projects) of historic home rehabilitations averaged 25 per year, with no apparent trend. Thus, 25 historic home projects are assumed to earn credits per year for purposes of current-law baseline projections.
- Department of Revenue (DOR) data on historic home credits generated suggest the average credit per historic home project in 2017-19 was approximately $63 thousand. In light of recent, sharp price increases for many building materials, cost of these rehabilitations, and thus the average credit earned, is assumed to increase by 10 percent in 2021, followed by growth at 2 percent per year. Thus by 2026, the average historic home credit is projected to be about $77 thousand.

For other structures, the current-law baseline is estimated as follows:

- According to DOR data, credits generated from the rehabilitation of structures generating less than $300,000 of credits per project (uncapped credits) averaged approximately $5.6 million per year in CYs 2017-19. Projects generating more than $300,000 of credits in CYs2017-19 reached the $25 million cap every year.
- DCA data indicate that completed historic structure projects averaged about 26 per year prior to the effectiveness of HB 308 (2015) and 50 per year more recently, again with no clear trend other than the increase presumably resulting from that bill. No breakdown is available of the numbers in the capped and non-capped categories.
- For the two years prior to effectiveness of HB 308, the average per-project credit generated over all projects, including homes, was about $147 thousand. Considering the average historic home credit over the next three years was about $63 thousand, the average historic structure credit at that time is estimated to be around $216 thousand.
- With inflation, including to reflect the recent surge in building materials prices, and reflecting the restored $300,000 credit maximum per project under current law, the average historic structure credit for 2022 is assumed to be about $262 thousand, growing at 2 percent per year thereafter. The number of historic structure projects for 2022-26 under current law is assumed to remain at the 50 projects per year average of 2017-20.

Projected baseline historic home and historic structures credits for CY 2022-26 are presented in Table 2 below. Projected credits under the proposed law assume the $25 million cap for all project types is binding; total credits generated, according to DOR data, have exceeded $30 million per year for the latest three years. Credits generated after CY 2022 under the proposed law are zero.

Credits generated next must be adjusted to reflect actual utilization of the credits on tax returns. DOR data do not break down utilization between that of current-year credits earned and carryforwards from prior years, and carryforwards of pre-2022 credits are not impacted by the bill. Thus, it is assumed that new credits are utilized 30 percent in the year earned and the balance evenly over the subsequent four years, 17.5 percent per year. Projected credit utilization for CY 2022-26 is also provided in Table 2. To adjust to state fiscal years, credits utilized are assumed to reduce estimated tax payments, with two payments made in the fiscal year ending June 30 of the given calendar year and the balance in the subsequent fiscal year. Results on a fiscal year basis are provided in Table 1.

Table 2. Current-Law Baseline and HB 469 Credits

(*totals in millions*)	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	**5-yr Total**
Current Law:						
Historic Home Projects	25	25	25	25	25	125
Avg Credit	$71,065	$72,486	$73,936	$75,415	$76,923	
Total Home Credits	$1.8	$1.8	$1.8	$1.9	$1.9	$9.2
Historic Structure Projects	50	50	50	50	50	250
Avg Credit	$262,330	$267,576	$272,928	$278,386	$283,954	
Total Structures Credits	$13.1	$13.4	$13.6	$13.9	$14.2	$68.3
Total Credits Generated	$14.9	$15.2	$15.5	$15.8	$16.1	$77.5
Total Credits Utilized*	$4.5	$7.2	$9.9	$12.7	$15.6	$49.8
HB 469:						
Total Credits Generated	$25.0	$0.0	$0.0	$0.0	$0.0	$25.0
Total Credits Utilized*	$7.5	$4.4	$4.4	$4.4	$4.4	$25.0

* does not include utilization of pre-2022 credits carried forward