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Senate Bill 337 (as introduced 3-24-05)
Sponsor: Senator Jason E. Allen
Committee: Commerce and Labor

Date Completed: 5-3-05

CONTENT

The bill would amend the Single Business Tax (SBT) Act to allow a "qualified taxpayer" to claim a credit against the SBT for up to 50% of the total cost of renovating a "historic resource" for tax years beginning after December 31, 2005, upon approval of the Department of History, Arts, and Libraries.

"Qualified taxpayer" would mean a taxpayer exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (a charitable nonprofit organization).

"Historic resource" would mean a publicly or privately owned historic building, structure, site, object, feature, or open space located within a historic district designated by the National Register of Historic Places, the State Register of Historic Sites, or a local unit of government acting under the Local Historic Districts Act; or that is individually listed on the State or National Register, including all of the following:

- An owner-occupied personal residence or a historic resource located within the property boundaries of that residence.
- An income-producing commercial, industrial, or residential resource or a historic resource located within the property boundaries of that resource.
- A resource owned by a governmental body, nonprofit organization, or tax-exempt entity that is used primarily by a taxpayer lessee in a trade or business unrelated to the governmental body, nonprofit organization, or tax-exempt entity and that is subject to the SBT.
- A resource that is occupied or used by a governmental body, nonprofit organization, or tax-exempt entity pursuant to a long-term lease or lease with option to buy agreement.
- Any other resource that could benefit from renovation.

The Department of History, Arts, and Libraries (HAL) could not approve more than 10 SBT credits under the bill each calendar year. Of those, nine would have to be for \$1 million or less and one could be for more than \$1 million but less than \$3 million. Not more than three credits could be issued for renovation of historic resources within any one municipality.

The Department would have to develop an application form and process for the credit. The application would have to require all of the following:

- A copy of the certification issued by the Michigan Historical Center (described below).
- Documentation that the renovation would be on a historic resource that met the bill's criteria.

- Written commitments or agreements that showed that the qualified taxpayer had acquired, and designated to the renovation, an amount equal to at least 50% of the total cost of the renovation from sources separate from the funds available based on an anticipated SBT credit allowed under the bill.

A qualified taxpayer would have to apply to HAL for approval of a tax credit for the renovation of a historic resource. The Department would have to approve or deny the application within 65 days after receiving it, or the application would be considered approved.

To be eligible for the proposed SBT credit, a taxpayer would have to apply to and receive from the Michigan Historical Center certification that the historic significance, the renovation plan, and the completed renovation of the historic resource met either of the following:

- The historic resource contributed to the significance of the historic district in which it was located; both the renovation planned and completed renovation of the historic resource met the U.S. Secretary of the Interior's standards for rehabilitation and guidelines for rehabilitating historic buildings; and all renovation work had been done to or within the walls, boundaries, or structures of the historic resource or to historic resources located within the property boundaries of the property.
- The taxpayer had received from the National Park Service certification that the historic resource's significance, the renovation plan, and the completed renovation qualified for the rehabilitation credit allowed under Section 47(a)(2) of the Internal Revenue Code.

Costs for the renovation of a historic resource could be used to calculate the proposed SBT credit if the historic resource met one of the criteria listed in each item below:

- The resource was one of the following during the tax year in which a credit was claimed: 1) individually listed on the National Register of Historic Places or the State Register of Historic Sites; 2) a contributing resource located within a historic district listed on the National or State Register; or 3) a contributing resource located within a historic district designated by a local unit of government pursuant to an ordinance adopted under the Local Historic Districts Act.
- The resource was located in one of the following during the tax year in which a credit was claimed: 1) a designated historic district in a local unit of government with an existing ordinance under the Local Historic Districts Act; 2) an incorporated local unit of government that did not have an ordinance under the Local Historic Districts Act and had a population under 5,000; or 3) an unincorporated local unit of government.

If HAL approved the renovation of the historic resource, it would have to issue an approval letter to the qualified taxpayer. The letter would have to state that the taxpayer was a qualified taxpayer; the maximum credit allowed for the renovation of the historic resource; the maximum percentage of the total cost of the renovation determined by the Michigan Economic Development Corporation (MEDC) that the qualified taxpayer was allowed to use to calculate a credit under the bill; and an identification number assigned by the MEDC for the renovation.

If a renovation of a historic resource were denied, a taxpayer could subsequently apply for the same or another renovation.

If a taxpayer's credit under the bill for a tax year exceeded the taxpayer's tax liability for that year, the excess would have to be refunded. If the qualified taxpayer had no tax liability for that year, the amount of the claim would have to be approved for payment, without interest, to the taxpayer, after review and examination by the Department of Treasury.

A qualified taxpayer would have to attach all of the following to his or her annual return on which an SBT credit under the bill was claimed:

- Certification of completed renovation.
- Certification of historic significance related to the historic resource and the costs used to calculate the credit.
- A financial statement indicating the total cost of the renovation and the source of all funds used to complete it.

Proposed MCL 208.35c

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

Based on the maximum number of credits and the maximum dollar amount of the credits contained in this bill, the maximum cost of this proposed new single business tax credit in any given fiscal year, beginning in FY 2006-07 (tax year 2006), would be \$12 million. This loss in single business tax revenue would affect the General Fund budget. This bill would not have any direct impact on local government. The single business tax already has a historic rehabilitation tax credit, which will reduce single business tax revenue an estimated \$800,000 in FY 2004-05. This existing credit is a nonrefundable credit, which means that, in order to qualify for the credit, a taxpayer must have a tax liability. The historic renovation credit proposed in this bill would be a refundable tax credit, and only tax-exempt nonprofit 501(c)(3) organizations would qualify for the credit. Tax-exempt nonprofit organizations are not eligible for the existing credit.

The bill would increase the administrative responsibilities for the tax credit staff in HAL. These costs would need to be covered with existing revenue sources as no additional revenue would be generated under the bill.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.