

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1981

Amendment Number: Engrossment 3/26/13 (Am #H1)

Bill Subtitle: TO AMEND AND EXPAND THE ARKANSAS CENTRAL BUSINESS IMPROVEMENT DISTRICT REHABILITATION AND DEVELOPMENT INVESTMENT TAX CREDIT ACT.

Basic Change :

Representative Sabin

House Amendment 1

The bill amends the Arkansas Central Business Improvement District Rehabilitation and Development Investment Tax Credit Act. Current law provides an investment tax credit against state income tax for qualified projects to rehabilitate properties located within a Central Business Improvement District of an Arkansas city if State General Improvement Funds are available. The credits are currently calculated on 25% of the first \$500,000 of qualified expenditures on income-producing property or on the first \$200,000 of qualified expenditures on residential property. A taxpayer who receives an investment tax credit under this Act cannot claim any other state or local credit or deduction based on the qualified expenditures except for normal depreciation.

The bill amends current law by allowing a 25% investment tax credit on the first \$2,000,000 of qualified expenditures on income producing property or nonincome producing property. The bill also deletes the language limiting the taxpayer to only depreciation if they receive a credit under this Act, increases the maximum amount of credits issued per year to \$10,000,000 and deletes the requirement that State General Improvement Funds must be available. Effective July 31, 2013

Revenue Impact :

\$10,000,000 Annual Loss to State General Revenues

Taxpayer Impact :

Taxpayers may claim a credit for rehabilitation or development expenditures incurred on a qualified central business improvement district rehabilitation project. The credit is available for income-producing properties and non-income producing properties.

Resources Required :

Computer development to maintain the required ongoing record of eligibility certificates awarded each year by the governing body of a central business improvement district.

Time Required :

90 days from the effective date of the Act.

Procedural Changes :

Education and training of staff personnel in the change in the law.

Other Comments :

For tracking purposes, the \$10,000,000 annual maximum should be based on a calendar year instead of the state's fiscal year. This would be consistent and more feasible because credits issued to taxpayers are generally issued and claimed in a tax year that coincides with the calendar year.

Legal Analysis :

HB1981, as amended, changes certain terms of the rehabilitation tax credit, as follows:

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- Increases the amount of expenditures available for the credit from \$500,000 to \$2 million on both income and nonincome producing property;
- Repeals the prohibition against a taxpayer receiving another state or local tax credit if the taxpayer receives this credit;
- Increases the amount of tax credits that may be issued in a fiscal year from \$1 million to \$ 10 million; and
- Repeals the sufficient funding trigger for the credit and makes the credit effective July 31, 2013.

HB1981 amends Ark. Code Ann. § 26-51-2407, which provides an investment income tax credit for any taxpayer incurring costs and expenses that are qualified rehabilitation or development expenditures of eligible central business improvement district property. Currently, this credit is equal to 25% of qualified rehabilitation or development expenditures incurred for a qualified project up to the first \$500,000 on income-producing property or up to the first \$200,000 on nonincome-producing property. As amended by this bill, this Code section changes the expenditure limit to \$2 million for both income-producing and nonincome-producing property. The bill also removes the statutory provision that a recipient of this credit may not claim any other state or local tax credit or deduction based on these expenditures except for normal depreciation. This change would allow a taxpayer to receive more than one tax credit or incentive based upon the same expenditure.

The bill also amends Ark. Code Ann. § 26-51-2407 by increasing the maximum amount of the investment tax credits that may be issued by the Department of Finance and Administration (DFA) in any one fiscal year from \$1 million to \$10 million.

The bill also amends Ark. Code Ann. § 26-51-2412 to provide that the effective date of the tax credits as amended by this bill will be effective July 31, 2013.