House of Representatives

General Assembly

File No. 689

January Session, 2023

House Bill No. 6920

House of Representatives, May 3, 2023

The Committee on Finance, Revenue and Bonding reported through REP. HORN of the 64th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CONCERNING THE HISTORIC HOMES REHABILITATION TAX CREDIT.

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

Section 1. Section 10-416 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective January 1, 2024, and applicable to taxable years commencing on or after January 1, 2024*):

(a) As used in this section, the following terms shall have the following meanings unless the context clearly indicates another meaning:

(1) "Department" means the Department of Economic and Community Development;

(2) "Historic home" means a building that: (A) Will contain one-to-four dwelling units of which at least one unit will be occupied as the principal residence of the owner for not less than five years following the completion of rehabilitation work, and (B) is (i) listed individually

on the National or State Register of Historic Places, or (ii) located in a district listed on the National or State Register of Historic Places, and has been certified by the department as contributing to the historic character of such district;

(3) "Nonprofit corporation" means a nonprofit corporation incorporated pursuant to chapter 602 or any predecessor statutes thereto, having as one of its purposes the construction, rehabilitation, ownership or operation of housing and having articles of incorporation approved by the Commissioner of Economic and Community Development in accordance with regulations adopted pursuant to section 8-79a or 8-84;

(4) "Owner" means (A) any taxpayer filing a state of Connecticut tax return who possesses title to an historic home, or prospective title to an historic home in the form of a purchase agreement or option to purchase, or (B) a nonprofit corporation that possesses such title or prospective title;

(5) "Qualified rehabilitation expenditures" means any costs incurred for the physical construction involved in the rehabilitation of an historic home, but excludes: (A) The owner's personal labor, (B) the cost of site improvements, unless to provide building access to persons with disabilities, (C) the cost of a new addition, except as may be required to comply with any provision of the State Building Code or the Fire Safety Code, (D) any cost associated with the rehabilitation of an outbuilding, unless such building contributes to the historical significance of the historic home, and (E) any nonconstruction cost such as architectural fees, legal fees and financing fees;

(6) "Rehabilitation plan" means any construction plans and specifications for the proposed rehabilitation of an historic home in sufficient detail to enable the department to evaluate compliance with the standards developed under the provisions of subsections (b), (c) and (m) of this section; and

(7) "Occupancy period" means a period of five years during which

one or more owners occupy an historic home as such owner's or owners' primary residence. The occupancy period begins on the date the tax credit voucher is issued by the Department of Economic and Community Development.

(b) The Department of Economic and Community Development shall administer a system of tax credit vouchers within the resources, requirements and purposes of this section for owners rehabilitating historic homes or taxpayers making contributions to qualified rehabilitation expenditures. **[**For income years commencing on or after January 1, 2000, any**]** <u>Any</u> owner shall be eligible for a tax credit voucher in an amount equal to thirty per cent of the qualified rehabilitation expenditures.

(c) The department shall develop standards for the approval of rehabilitation of historic homes for which a tax credit voucher is sought. Such standards shall take into account whether the rehabilitation of an historic home will preserve the historic character of the building.

(d) Prior to beginning any rehabilitation work on an historic home, the owner shall submit a rehabilitation plan to the department for a determination of whether such rehabilitation work meets the standards developed under the provisions of subsections (b), (c) and (m) of this section and shall also submit to the department an estimate of the qualified rehabilitation expenditures.

(e) If the department certifies that the rehabilitation plan conforms to the standards developed under the provisions of subsections (b), (c) and (m) of this section, the department shall reserve for the benefit of the owner an allocation for a tax credit equivalent to thirty per cent of the projected qualified rehabilitation expenditures.

(f) Following the completion of rehabilitation of an historic home, the owner shall notify the department that such rehabilitation has been completed. The owner shall provide the department with documentation of work performed on the historic home and shall certify the cost incurred in rehabilitating the home. The department shall review such rehabilitation and verify its compliance with the rehabilitation plan. Following such verification, the department shall issue a tax credit voucher to either the owner rehabilitating the historic home 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 (1) the tax credit reserved upon certification of the rehabilitation plan under the provisions of subsection (e) of this section, or (2) thirty per cent of the actual qualified rehabilitation expenditures. In order to obtain a credit against any state tax due that is specified in [subsections (i) to (l), inclusive,] subsection (i) of this section, the holder of the tax credit voucher shall file the voucher with the holder's state tax return.

(g) Before the department issues a tax credit voucher, the owner shall deliver a signed statement to the department [which] that provides that: (1) The owner shall occupy the historic home as the owner's primary residence during the occupancy period; [, or] (2) the owner shall convey the historic home to a new owner who will occupy it as the new owner's primary residence during the occupancy period; [,] or (3) an encumbrance shall be recorded, in favor of the local, state or federal government or other funding source, that will require the owner or the owner's successors to occupy the historic home as the primary residence of the owner or the owner's successors for a period equal to or longer than the occupancy period. A copy of any such encumbrance shall be attached to the signed statement.

(h) The owner of an historic home shall not be eligible for a tax credit voucher under subsections (b), (c) and (m) of this section, unless the owner incurs qualified rehabilitation expenditures exceeding fifteen thousand dollars.

(i) (1) The Commissioner of Revenue Services shall grant a tax credit: [to a]

(A) (i) For a taxpayer holding [the] a tax credit voucher issued prior to January 1, 2024, under subsections (d) to (h), inclusive, of this section, against any tax due under chapter 207, 208, 209, 210, 211 or 212 in the amount specified in the tax credit voucher.

(ii) Any unused portion of such credit under this subparagraph may be carried forward to any or all of the four income years following the year in which the tax credit voucher is issued;

(B) (i) For a taxpayer described under subparagraph (A) of subdivision (4) of subsection (a) of this section holding a tax credit voucher issued on or after January 1, 2024, under subsections (d) to (h), inclusive, of this section, against the tax due under chapter 229 in the amount specified in the tax credit voucher.

(ii) If the amount of the tax credit voucher exceeds the taxpayer's liability for the tax imposed under chapter 229, the Commissioner of Revenue Services shall treat such excess as an overpayment and, except as provided under section 12-739 or 12-742, shall refund the amount of such excess, without interest, to the taxpayer; and

(C) (i) For an owner that is a nonprofit corporation holding a tax credit voucher issued on or after January 1, 2024, under subsections (d) to (h), inclusive, of this section, against the tax due under chapter 208a in the amount specified in the tax credit voucher.

(ii) Any unused portion of such credit under this subparagraph may be carried forward to any or all of the four income years following the year in which the tax credit voucher is issued.

(2) The Department of Economic and Community Development shall provide a copy of the voucher to the Commissioner of Revenue Services upon the request of said commissioner.

(j) A credit allowed under this section shall not exceed thirty thousand dollars per dwelling unit for an historic home, except that such credit shall not exceed fifty thousand dollars per such dwelling unit for an owner that is a nonprofit corporation.

(k) The tax credit granted under subsection (i) of this section shall be taken in the same tax year in which the tax credit voucher is issued. [Any unused portion of such credit may be carried forward to any or all of the four income years following the year in which the tax credit voucher is issued.**]**

(l) The aggregate amount of all tax credits **[**which**]** that may be reserved by the Department of Economic and Community Development upon certification of rehabilitation plans under subsections (b) to (d), inclusive, of this section shall not exceed three million dollars in any one fiscal year. On and after July 1, 2015, seventy per cent of the tax credits reserved pursuant to this section shall be for owners rehabilitating historic homes that are located in a regional center as designated in the state plan of conservation and development adopted by the General Assembly pursuant to section 16a-30 or taxpayers making contributions to qualified rehabilitation expenditures on historic homes that are located in a regional center as designated in the state plan of conservation and development adopted by the General Assembly pursuant to section 16a-30.

(m) The Department of Economic and Community Development may, in consultation with the Commissioner of Revenue Services, adopt regulations in accordance with chapter 54 to carry out the purposes of this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*January 1, 2024, and applicable to taxable years commencing on or after January 1, 2024*	10-416

FIN *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 24 $	FY 25 $
Revenue Serv., Dept.	GF - Cost	None	Up to $150,000

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which changes the taxes against which historic homes rehabilitation tax credits may be claimed, results in a one-time General Fund cost to the Department of Revenue Services of up to $150,000 in FY 25 associated with form development/modification, and programming updates to the CTax tax administration system and myconneCT online portal, in order to make the credit refundable under the personal income tax.

The bill does not result in any revenue impact as it does not alter the aggregate cap on the amount of credits allowed annually.

The Out Years

None.

OLR Bill Analysis
HB 6920

AN ACT CONCERNING THE HISTORIC HOMES REHABILITATION TAX CREDIT.

SUMMARY

This bill changes the taxes against which historic homes rehabilitation tax credits may be claimed. By law, the Department of Economic and Community Development (DECD) issues these credits, subject to certain requirements, to (1) people and nonprofits who own, rehabilitate, and occupy historic homes or (2) businesses that contribute funds for rehabilitating historic homes that are or will be occupied by their owners.

Under current law, property owners and businesses may apply the credits against specified state business taxes (i.e., the insurance premiums, corporation business, air carriers, railroad companies, cable and satellite TV companies, and utility companies' taxes). In practice, property owners generally allocate the credits to businesses with enough business tax liability to claim them, in exchange for the businesses making a cash contribution to the property's qualifying rehabilitation expenditures. For credits issued on or after January 1, 2024, the bill instead allows (1) nonprofit corporations to claim the credits against the unrelated business income tax and (2) all other taxpayers to claim them against the personal income tax. In doing so, the bill allows people and nonprofits receiving these credits to apply them against their own state tax liability.

Under the bill, credits applied against the income tax are refundable for any amount of the credit that exceeds the taxpayer's liability. Nonprofits applying them against the unrelated business income tax may carry forward any unused credits for up to four income years, just as current law allows for business taxpayers claiming the credits.

The bill also makes technical and conforming changes.

EFFECTIVE DATE: January 1, 2024, and applicable to tax years starting on or after that date.

BACKGROUND

Historic Homes Rehabilitation Tax Credit

Under this program, qualifying property owners (people and nonprofits) may receive a tax credit for 30% of the construction costs they incur in rehabilitating a historic home. To qualify, the historic home must (1) have no more than four units, one of which must be the owner's principal residence for at least five years after rehabilitation is completed, and (2) be (a) listed on the National or State Register of Historic Places or (b) located in a district listed in either register and certified by DECD as contributing to the district's historic character.

To qualify for the credit, the project's construction costs must exceed $15,000. The credit equals 30% of the eligible construction costs, but may not exceed $30,000 per dwelling unit (or $50,000 for owners that are nonprofit corporations). DECD may reserve up to $3 million in vouchers for these credits each fiscal year, 70% of which must be for rehabilitating homes in the municipalities designated as "regional centers" in the current state plan of conservation and development.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 51 Nay 0 (04/18/2023)