

FISCAL NOTE
Requested by Legislative Council
02/09/2017

Amendment to: HB 1182

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engrossed HB 1182 makes changes to the law governing the renaissance zone program, which provides income and property tax benefits for eligible investments.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 2 of the bill repeals the provisions that (1) allow the income and property tax incentives only one time with respect to zone project property and (2) provide that, if the zone project property is transferred during its five-year benefit period, the benefit must be prorated between the transferor and transferee. (Note: These provisions are reinstated in section 3 of the bill, but only for the income tax benefits under the program.)

Section 3 of the bill places a sunset date of January 1, 2018, on the income tax benefits (other than the historic property and renaissance fund organization credits), which limits the benefits to zone projects approved before the sunset date. Section 3 of the bill also reinstates the one-time benefit and transfer provisions repealed by section 2 of the bill, but only for the income tax benefits under the program. (Note: The latter change means that the property tax exemptions under the program may be granted more than once for a parcel of property, and that the remaining property tax exemption eligibility does not transfer to a new owner if the property is transferred before the end of its benefit period.)

Sections 4 and 5 of the bill amend the individual income tax provisions to provide that the income tax benefits (other than the historic property and renaissance fund organization credits) may be claimed on returns filed for the 2018 through 2022 tax years, after which they are no longer allowed. This is to allow taxpayers to claim the income tax benefits with a five-year benefit period that are attributable to zone projects approved before the January 1, 2018, sunset date.

Section 6 of the bill repeals the historic property and renaissance fund organization credits (effective for tax years after 2017, as provided in section 7 of the bill).

Section 7 makes the changes in the bill effective for tax years after 2017.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Since its creation in 1999, there has been significant qualifying investment activity under the renaissance zone program. The income tax benefits (other than the historic property and renaissance fund organization credits) will be phased out under the bill, with tax year 2022 being the last year in which they will be allowed. The historic property and renaissance fund organization credits will be repealed for tax years after 2017. The program will continue to exist and, after the income tax benefits are fully phased out, will only provide property tax benefits.

With respect to the property tax benefits, the bill removes the limitation on the number of times they may be granted for a given property. The property tax exemptions will continue to cause a shifting of property tax burdens to other property owners through the 2017-19 biennium. The amount of that shift is unknown and is dependent upon future activity under the program, as approved by local governing bodies.

With respect to the income tax benefits, there is a reasonable expectation that, if not phased out or repealed, significant investment activity qualifying for those benefits would continue under the program. The income tax benefits allowed for zone projects approved before the sunset date will continue to have a negative effect on state general fund revenues through the 2017-19 biennium and until their complete phase-out after tax year 2022. The income tax benefits will no longer be available for new projects approved on or after the sunset date, which will have a positive effect on state general fund revenues starting in the second year of the biennium.

If enacted, Engrossed HB 1182 is expected to have a positive fiscal effect on state general fund revenues, starting with the second year of the 2017-19 biennium. The amount of that effect is uncertain because it is dependent on the level of new investment activity that would occur after 2017 if the income tax benefits were continued. Based on income tax returns filed for the 2010 through 2015 tax years, the estimated reduction in state general fund revenues attributable to the income tax benefits has ranged from \$1.6 million to \$4.9 million per year, with an average of \$3.1 million per year.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

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