F I S C A L   I M P A C T   R E P O R T

SPONSOR Smith **DATE TYPED** 2-16-2005 **HB**

SHORT TITLE Affordable Housing Tax Credit Act **SB** 602

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	**FY06**			
	($2,300.0)	($2,600.0)	Recurring	General Fund
	($365.0)	($400.0)	Recurring	Local Government Funds
	$2,655.0	$2,889.0	Recurring	MFA Investment Vouchers

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

Senate Bill 602 enacts the affordable housing tax credit act. The tax credit can be applied against modified tax liability (gross receipts, compensating tax, withholding tax), governmental gross receipts tax liability, personal income tax liability or corporate income tax liability; but it cannot be applied against a gross receipts tax imposed by a city or county). Credit balances may be carried forward for up to five years. To claim the credit, a taxpayer would have to submit an "investment voucher" to the Taxation and Revenue Department, and certify project or service completion.

The bill also authorizes the Mortgage Finance Authority (MFA) to issue investment vouchers for persons investing in affordable housing projects. The value of the vouchers is 60 percent of the investment. Vouchers can be sold or transferred. The MFA is required to adopt rules for the approval, issuance and administration of the vouchers. The value of the vouchers is established for the first two years as follows: in 2006--$2.665 million; in 2007--$2.889 million. The value of the vouchers would increase in subsequent years at rate equal to inflation plus population growth.

FISCAL IMPLICATIONS

The estimated fiscal impacts are equal to the value of the vouchers: $2.665 million in FY06 and $2.9 million in FY07. These are shown in the table as losses to the general fund and gains to affordable housing vouchers.

Although, MFA is not authorized to issue or approve investment vouchers until January, 1, 2006, it is assumed that preparations could be developed in advance, and that vouchers for the full amount could be authorized. In addition, the provision authorizing the sale or transfer of vouchers should make it relatively easy to use the entire value of the voucher in this time period.

The estimated revenue loss is shared between the state and local governments. The relatively small impact to local governments is in spite of the provision excluding locally authorized gross receipts taxes, and results from the impact on the part of the state gross receipts tax that is shared with municipalities and the share of compensating tax that is dedicated to small cities and counties.

General Fund revenues are offset by money provided for the vouchers.

ADMINISTRATIVE IMPLICATIONS

TRD reported that this bill would have an administrative impact on the department requiring additional resources. Specifically, they reported the following:

> 1/2 to 1 TRD FTE will be needed to manually review, track, and monitor the carry forward of the credit. A new application and claim form will have to be developed. Changes will also have to be made to existing instructions and publications. An approval process and audit and compliance procedures will need to be developed.

TECHNICAL ISSUES

TRD's analysis raised the following technical issues:

> Section 3 of the bill contains redundant language concerning how the value of the vouchers is determined.
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> The bill does not contain a mechanism for dividing up the capped amount of vouchers.
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> The bill does not contain a definition of "affordable housing."
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> The vouchers -- and therefore the credits -- would be available for investments in affordable housing projects even if these were otherwise reimbursed.

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