NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1554

SHORT TITLE: Pass-Through Entity/Housing Tax Credit

SPONSOR(S): Senator Hoyle

FISCAL IMPACT

Yes ( ) **No (X)** **No Estimate Available ( )**

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
REVENUES	See "Assumptions and Methodology"				

PRINCIPAL DEPARTMENTS AFFECTED: The tax credits are administered by the Department of Revenue. The enactment of the bill will not affect the budget requirements of the Department.

BILL SUMMARY: The 1999 General Assembly created a tax credit for constructing or rehabilitating low-income housing that is based on a percentage of the federal credit. The new credit is effective for federal credits allocated on or after January 1, 2000. The state credit is 75% of the federal credit for buildings located in a Tier 1 or 2 county (most distressed) and 25% in remaining counties. In addition, for projects located in Tiers 3-5 there are rent restriction and renter income qualifications. Finally, the credit is taken over 5 years, starting in the first taxable year in which the federal credit is taken.

The bill modifies the 1999 credit by allowing a pass-through entity (partnerships, S corporations) to allocate the credit among any of the entity's owners as long as the total credits do not exceed the owner's adjusted basis in the project. The bill also establishes reporting rules for the pass-through entity and forfeiture rules in case an owner disposes of all or part of their interest in the property.

ASSUMPTIONS AND METHODOLOGY: Under federal law there is a statewide limit on the amount of the federal credit allowed each year ($9.2 million). Since the state credit is a percentage of the federal amount, the state credit is effectively capped. If the credits claimed exceed the federal cap, the credits are allocated by federal law to the projects most likely to meet the needs of low income residents for the longest period.

When the credit was enacted in 1999, discussions with the Community Assistance Division of the Department of Commerce and the State Housing Finance Agency indicated a very strong level of interest in the federal credits. Thus, the fiscal note assumed that all of the credit capacity would be utilized. This means that the enactment of the bill will not change the budget impact of the credit but will simply re-allocate the credits within the cap.

There is legislation in the Congress to raise the level of the statewide limit on the federal credit from $1.25 per capita to $1.75. The new cap would be equivalent to $13.0 million. If this legislation is enacted, the cost of the 1999 bill will increase. However, the strong interest in the program means that there should be no additional revenue loss under SB 1554.

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