Fiscal Note

BILL # HB 2562

TITLE: tax credit; affordable housing

SPONSOR: Cobb

STATUS: As Introduced

PREPARED BY: David Hoffer

Description

HB 2562 would establish a non-refundable affordable housing tax credit that is equal to at least 50% of the federal low-income housing tax credit for investments in qualifying rental housing. The credits can be applied against corporate and individual income and insurance premium tax liability. The annual growth in the credit would be capped at $8.0 million per year. The program would sunset on December 31, 2028.

Estimated Impact

We estimate HB 2562 will reduce General Fund revenues by $(8.0) million in FY 2024. This reduction reflects use of the first full year of credits which are allocated in tax year (TY) 2022 and claimed in TY 2023. The revenue loss would gradually increase to an annual impact of $(56.0) million in TY 2030, which reflects the use of 7 installments of credits allocated from TY 2022 through TY 2028. *Table 1* displays the estimated impact by year.

The fiscal impact of the bill will depend on multiple factors. Our estimate assumes that:

- The Arizona Department of Housing (ADOH) will have rules and procedures in place in time to allocate state credits during the spring of 2022. If these procedures are not in place in time, then state credits may not begin to be allocated until as late as the spring of 2023. This would reduce the number of years of credit allocations by 1 and thus lower the highest annual cost of the credit, as the sunset date for the program would remain the same.
- Any credits allocated in a given year will be claimed in the following tax year. Credits cannot be claimed until the project is completed and placed into service. For example, the JLBC Staff assumes that credits issued in calendar year 2022 will be claimed in TY 2023, and thus would impact FY 2024 revenues.

ADOH estimates that the credit would cost $8.0 million in its first full year of being claimed. The Department assumes that credits will not be allocated until 2023. Under this assumption, the cost of the credit would increase to an annual impact of $48.0 million by the program's sunset date, after 6 years.

Table 1

Fiscal Impact Summary
($ in Millions)

Year	Total [1/]
FY 2024	$(8.0)
FY 2025	(16.0)
FY 2026	(24.0)
FY 2027	(32.0)
FY 2028	(40.0)
FY 2029	(48.0)
FY 2030	(56.0)

1/ Amounts may not add to totals due to rounding.
2/ Represents highest annual cost of credit. The annual impact will remain the same in through CY 2033, and then decline by $8.0 million each year until reaching $0 in CY 2040.

(Continued)

ADOH expects that any costs incurred in administering this program would be covered by charging fees of 10% to qualifying projects accessing credits.

The Arizona Department of Revenue has not responded to a request for a cost estimate for HB 2562.

Analysis

Federal Credit Background

The federal government provides Arizona's ADOH an allotment of federal Low-Income Housing Tax Credits (LIHTC). The agency allocates the credits to developers and investors of qualifying rental housing projects, which may use the credits to reduce their federal corporate income and individual income tax liability. The credits administered by ADOH are intended to offset 70% of a project's cost over a 10-year period. ADOH expects to allocate approximately $21.9 million of LIHTC in 2021, which may be taken for 10 consecutive years (total of $219 million in credits over 10 years). The federal allotment provided to the state is increased annually by formula adjustments for inflation and population growth. ADOH allocates these credits during the spring of each year.

Availability of State Credits

HB 2562 would permit investors an amount of state affordable housing tax credits that is equal to 50% of the amount of federal LIHTC issued for Arizona projects that are placed into service after June 30, 2022. The annual amount of credits that could be issued by ADOH would be capped at $8.0 million for a given tax year. Assuming the entire $21.9 million amount expected to be allocated by ADOH are in fact issued, we anticipate that the cap for state credits will be reached in TY 2022 and each year thereafter. ADOH states that issuing the full $8.0 million of tax credits in TY 2022 would require ADOH to have adequate rules and procedures in place by late 2021. Any credits issued in TY 2022 would not be eligible to be claimed against tax liability until the project was completed and placed into service. ADOH assumes a development delay of 2 years -- meaning TY 2022 allocations would have a FY 2024 impact.

Under the bill, taxpayers would receive an estimated $8.0 million in state credits available to offset corporate and individual income and insurance premium tax liability in FY 2024. That amount reflects the first installment of credits that are issued in TY 2022, and assumes the projects are placed in service during TY 2023. The total amount of available credits under the bill would gradually increase to $56.0 million in FY 2030, which consists of 7 credit installments for projects placed in service from TY 2023 through TY 2029.

We assume that taxpayers will have sufficient tax liability to utilize the full amount of credits in all years. Therefore, HB 2562 would reduce General Fund revenues by the amounts in *Table 1*. If credits will not be issued until TY 2023, the fiscal impact of the bill would likely not begin until FY 2025. This would reduce the number of years of credit allocations to 6 years.

Local Government Impact

Each year, incorporated cities and towns receive 15% of corporate and individual income and some insurance premium tax collections from 2 years prior. The bill would decrease local government distributions beginning in FY 2026. The impact will depend on the level of credits against each tax category.

In addition, fire insurance premium tax is distributed 85% to cities and fire districts to fund pension plans for firefighting personnel and 15% to the General Fund. To the extent that the state low-income housing tax credit reduces collections of these specific fire insurance premium taxes, the impact to the General Fund and local governments may vary, but the specific impact cannot be determined in advance.

2/2/21