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| PROPOSED MASSACHUSETTS TAX EXPENDITURES EVALUATION SUMMARY  |
| EVALUATION YEAR: 2020 |

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| **TAX EXPENDITURE TITLE** | Massachusetts Historic Rehabilitation Tax Credit  |
| **TAX EXPENDITURE NUMBER** | 1.610, 2.610 |
| **TAX EXPENDITURE CATEGORY** | Credit against tax *(personal income tax, corporate excise)* |
| **TAX TYPE** | Personal income tax, corporate excise  |
| **LEGAL REFERENCE** | M.G.L. c. 62, § 6J; M.G.L c. 63, § 38R |
| **YEAR ENACTED** | Enacted by St. 2003, c. 141, § 22, effective January 1, 2005 |
| **REPEAL/EXPIRATION DATE** | December 31, 2022 |
| **ANNUAL REVENUE IMPACT** | Tax loss of up to $55 million FY22 |
| **AVERAGE NUMBER OF TAXPAYERS /** | Corporate filers: 32 filers; average $1.2 million  |
| **AVERAGE TAXPAYER BENEFIT** | Personal filers: 52 filers; average $0.1 million  |

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| **Description of the Tax Expenditure:**The Massachusetts historic rehabilitation tax credit is a credit for qualified expenditures made by a taxpayer in rehabilitating a qualified historic structure. | **Is the purpose defined in the statute?**The statute does not explicitly state the purpose of this tax expenditure  |
| **What are the policy goals of the expenditure?**To encourage (1) private sector investment in the rehabilitation and re-purposing of historic buildings and (2) private capital targeted at revitalizing low income, distressed, or underserved areas, thereby spurring job growth and the economy. | **Are there other states with a similar Tax Expenditure?**All of the New England states, the entire eastern seaboard except New Jersey and Florida, and most of the remaining states around the country except for a handful mainly in the northwest, offer a historic rehabilitation tax credit. New Jersey has proposed legislation, which is currently pending. |

**INTRODUCTION**

The Massachusetts historic rehabilitation tax credit (“MHRTC”) is a credit equal to a percentage, not to exceed 20%, of the qualified rehabilitation expenditures made by a taxpayer in rehabilitating a qualified historic structure which has received final certification by the Massachusetts Historical Commission (“MHC”) and has been placed in service. The MHRTC is available to both chapter 62 (personal income) and chapter 63 (corporate) taxpayers.

Unused portions of the MHRTC may be carried forward for up to 5 years and may be transferred or sold to another taxpayer, but are not refundable. The MHRTC cannot be used to reduce the corporate excise due below the minimum excise provided by G.L. c. 63, § 39(b), currently $456. The allowable corporate credit is not subject to the 50% limitation of G.L. c. 63, § 32C. If, before the end of the five-year period beginning on the date on which the qualified historic structure received final certification and was placed in service, the taxpayer disposes of its interest in the structure, the credit will be subject to recapture and the taxpayer's tax for the taxable year in which the disposition occurs will be increased by the recapture amount.

The MHRTC is currently capped at $55 million per year, effective for taxable years beginning January 1, 2018 and ending December 31, 2022. Previously the cap was set at $50 million per year, for taxable years beginning January 1, 2017 and ending December 31, 2022. The original cap was set at $15 million per year, effective for taxable years beginning January 1, 2005 and ending December 31, 2009.

Effective August 13, 2014, taxpayers subject to the personal income tax imposed by G.L. c. 62 that acquire a qualified historic structure may transfer MHRTC awards subject to criteria established by the MHC. In the case of a multi-phased project MHRTC awards may be transferred for any phase of the project that meets the MHC’s criteria. Effective August 10, 2016, MHRTC awards also may be transferred by taxpayers subject to the corporate excise under G.L. c. 63. See TIR 15-6 and 16-15.

**INTENT OF THE TAX EXPENDITURE**

The intent of the MHRTC is to encourage private sector investment in the rehabilitation and re-purposing of historic buildings, as well as to create jobs and support community revitalization programs. The expenditure is intended to attract private capital to fund the rehabilitation of historic centers and buildings, many of which are located in low-income communities or designated distressed or underserved areas. These private investor funds help revitalize these communities through increased property values, new jobs, and increased tax revenues from a revitalized tax base.

**COSTS**

The revenue loss from this tax expenditure is calculated annually as part of the Tax Expenditure Budget (TEB). We estimate that the cost of this credit in FY22 will be near the $55.0 million cap.

**Actual and Forecast Tax Loss from Historic Rehabilitation Credit ($millions)**



Both corporate and personal income tax filers qualify for the credit. As shown in the table, corporate filers typically claim over 85% of the credits.

**BENEFITS**

This credit provides direct benefits to taxpayers who own or lease historic properties and wish to renovate those properties. The credit serves to lower their cost of renovation. Note that while the recipients of the credit will tend to be higher income filers, the construction projects incentivized by the credit tend to spend in the local economy for labor and materials. Perhaps more importantly, the renovation of historic buildings has significant indirect impacts, as it preserves and supports the historic character of an area. As discussed in the next section, this further benefits the local economy by drawing businesses, tourists, and shoppers to historic districts.

**EVALUATION: COMPARING COSTS AND BENEFITS**

The direct costs and direct benefits of the credit are equal. When the Commonwealth issues credits to some taxpayers, the credits are the benefits to these taxpayers. However, some people will bear the cost as reduced government spending or reduced tax incentives. These are the direct costs and benefits. Given this, the comparison of costs to benefits requires an assessment of the credit’s impact on the overall economy.

Historic preservation projects provide important indirect benefits to the tourism industry, as they help preserve properties that may be of interest to tourists. Rehabilitation of the aesthetic quality or commercial viability of the properties may also benefit the broader community by increasing property values and encouraging business activity in the area.

Tourism is an important segment of the state’s economy. In their 2020 annual report, the Massachusetts Office of Travel and Tourism estimates that spending by tourists created 153,200 jobs in calendar year 2018. As would be expected, 60% of these jobs are in the Lodging and Food service industries, but in addition tourism also supported 21,800 jobs in the Public/Auto transportation industry sector and 22,700 jobs in the Entertainment and Recreation sector. [[1]](#footnote-1)

Historic preservation contributes to an area’s appeal to what is termed “Heritage Tourism”, which is tourism based on the historical significance of an area. A 2002 study conducted on behalf of the Massachusetts Historical Commission investigated the impact of historic preservation and Heritage Tourism in Massachusetts. Among its findings it noted that heritage travelers spend on average considerably more than average tourists. In addition, a much higher share of heritage travelers come from out of state (90 percent for the heritage group versus 79 percent for all Massachusetts travelers).[[2]](#footnote-2) Spending by out-of-state visitors is a direct injection into the local economy. These traits combined to accentuate the economic contribution of the heritage travelers to Massachusetts

While tourists visit the state for many reasons, the historical significance of the area is often cited as a reason for traveling here. Massachusetts in general, and Boston in particular, are regularly cited among the most popular destinations for a vacation with historical interest. In its compilation of the”10 Best Historical Cities to Visit in the USA”, *US News and World Report* listed 3 Massachusetts cities: Boston at #2, Plymouth at #8, and Salem at #10. [[3]](#footnote-3) This ranking is based on a survey of the magazine’s readers and input from their editors. The fact that Massachusetts is so well represented is evidence that its history is a strong draw for tourism.

While it is difficult to quantify how much of the success of the heritage tourism industry in Massachusetts should be attributed to the Historic Buildings Rehabilitation credit, we can be certain that the credit serves to preserve the historical character that draws many tourists to the state. We believe it likely that these economic benefits more than offset the cost of this credit.

**SIMILAR TAX EXPENDITURES OFFERED BY OTHER STATES**

Other states offer credits to taxpayers that rehabilitate historic buildings. These credits are generally based on a percentage of the costs of rehabilitation. Several of these states cap the total amount of credit available statewide as does Massachusetts. A variety of limitations and carry over rules apply. Finally, the credit is refundable in some of these states, but not others. States with a historic building renovation credit include New York, Maine, Rhode Island, Connecticut, Delaware, Maryland and Pennsylvania.

**IS THE INCENTIVE AS DESIGNED ACCOMPLISHING ITS PURPOSE?**

The chart below shows the total Historic Rehabilitation credits claimed, actual and projections to FY2022.

The intent of the credit has been to incentivize private sector investment in the rehabilitation and re-purposing of historic buildings. On that score, as the chart shows, the credit has been achieving its purpose. Since its introduction in 2005, the cap on the credit amount that the Massachusetts Historical Society may approve has increased from $15 to $55 million. These increases have been in response to the credit’s success in contributing to projects that rehabilitate historic structures.

To be completed further by TERC

Conclusion/Recommendations: [To be Entered by TERC]

1. See table on page 7 at <https://www.massvacation.com/wp-content/uploads/2020/06/2020_Annual_Report.pdf> [↑](#footnote-ref-1)
2. See page 8 of “Economic Impacts of Historic Preservation in Massachusetts”, available on the Massachusetts

Historical Commission home page (see “Learning and Research” section): <https://www.sec.state.ma.us/mhc/> [↑](#footnote-ref-2)
3. <https://travel.usnews.com/rankings/best-us-historic-destinations/> [↑](#footnote-ref-3)