

HOUSE BILL 2675

By Vaughan

AN ACT to amend Tennessee Code Annotated, Title 4, Chapter 11, Part 1; Title 4, Chapter 17; Title 56, Chapter 4; Title 66 and Title 67, relative to tax credits for the rehabilitation of historic structures.

WHEREAS, this General Assembly recognizes the importance of renovating and preserving the State's historic buildings; and

WHEREAS, the renovation and preservation of the State's historic buildings and structures expands the State's economy, creates new employment opportunities, revitalizes and renews communities, creates an environment friendly to investment and innovation, and promotes tourism and rural economic development to attract and retain residents in rural areas; and

WHEREAS, historic rehabilitation projects are labor intensive and cause the hiring of local craftspersons, technical training, and the purchase of materials locally; and

WHEREAS, this General Assembly enacts this Tennessee Historic Buildings Revitalization Act to facilitate the preservation and redevelopment of the State's most important historic assets, being primarily in the State's smaller and main street communities; now, therefore,

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Title 56, Chapter 4, is amended by adding Sections 2 through 7 as a new part.

SECTION 2. This part shall be known and may be cited as the "Tennessee Historic Buildings Revitalization Act."

SECTION 3. Definitions.

As used in this part:

(1) "Applicable percentage" means:

(A) For any certified historic structure located in enhancement counties categorized in tiers three (3) and four (4) as defined by the department, thirty percent (30%);

(B) For any certified historic structure located in enhancement counties categorized in tier two (2) as defined by the department, twenty percent (20%);

(C) For any certified historic structure located in enhancement counties categorized in tier one (1) as defined by the department, ten percent (10%); and

(D) For any certified historic structure that is located in a designated Tennessee main street community or a Tennessee downtown community, as defined by the department, the applicable percentage set forth in subdivisions (a)(1)-(3) shall be increased by five percent (5%);

(2) "Certified historic structure" means a property that is located in this state and is:

(A) Listed individually in the national register of historic places; or

(B) Located in a historic district that is listed in the national register of historic places and is certified by the secretary of the United States department of the interior as contributing to the historic significance of the district;

(3) "Commission" means the Tennessee historical commission;

(4) "Department" means the department of economic and community development;

(5) "Owner" means the person who holds legal fee or qualifying leasehold title to a certified historic structure, or an identifiable portion of the structure;

(6) "Person" means any natural person, corporation, including any for-profit or nonprofit corporation, general or limited partnership, limited liability company, trust, estate, or other business entity;

(7) "Placed in service" means that sufficient rehabilitation work has been completed that would allow for occupancy of the entire certified historic structure or of some identifiable portion of the structure, or that the owner has commenced depreciation of the qualified rehabilitation expenses, whichever occurs first;

(8) "Qualifying rehabilitation expenses" has the same meaning as defined in Section 47(c)(2)(A) of the Internal Revenue Code of 1986, as amended (26 U.S.C. § 47(c)(2)(A));

(9) "Specially designated areas" means:

(A) A Tennessee main street community or a Tennessee downtown community as defined by the department; or

(B) A certified local government approved by the national park service that does not also serve as the county seat of a county described in subdivision 1(A) or 1(B); and

(10) "State tax liability" means any liability incurred by a person for the following taxes, as applicable:

(A) Premium taxes under part 2 of this chapter; title 50, chapter 6, part 4; §§ 56-13-114; 56-14-113; 56-22-114; and 56-45-110;

(B) Retaliatory tax under § 56-4-218;

(C) Income taxes under title 67, chapter 2;

(D) Business taxes under title 67, chapter 4;

(E) Sales and use taxes under title 67, chapter 6;

(F) Bank and financial institution taxes under title 67, chapter 4, part 20, including § 67-4-2017; and

(G) Any other premium taxes, retaliatory taxes, or income taxes imposed upon a person by this state under any other law.

SECTION 4. Tax credit; carryforward; allocation.

(a)

(1) A person who incurs costs and expenses for the rehabilitation of a certified historic structure shall receive a credit against state tax liability ("tax credit") in an amount equal to the applicable percentage of the qualified rehabilitation expenditures incurred by such person, regardless of whether the expenditures were incurred before or after receipt of the approval contemplated by Section 5(c), not to exceed three hundred thousand dollars (\$300,000) per certified historic structure, per annual allocation; provided, that:

(A) The rehabilitation meets standards consistent with the standards of the secretary of the United States department of the interior for rehabilitation, as certified by the commission;

(B) The certified historic structure is placed in service on or after January 1, 2022; and

(C) The total amount of qualified rehabilitation expenditures associated with the certified historic structure exceeds fifty percent (50%) of the purchase price of the certified historic structure.

(2)

(A) The commission shall not approve applications for tax credits under this part that, in the aggregate, exceed six million dollars

(\$6,000,000) per fiscal year, increased by any amount of tax credits for which approval is rescinded; and

(B) Fifty percent (50%) of the aggregate amount set forth in subdivision (a)(2)(A) must be reserved for awards to projects subject to the applicable percentage set forth in Section 3(1)(A); provided, that if the commission has not approved applications for such amount on or before April 1 of each fiscal year, any remaining credits reserved under this subdivision (a)(2)(B) shall be available to any application meeting the requirements of this section.

(b) The entire tax credit shall be earned in the year in which the certified historic structure, or portion of the structure, attributable to the qualified rehabilitation expenditures is placed in service.

(c) If the amount of such credit exceeds the total tax liability for the year in which the rehabilitated property is placed in service, the amount that exceeds the state tax liability may be carried forward for credit against the state tax liability for the succeeding five (5) years, or until the full credit is used, whichever occurs first.

(d) Persons eligible for such tax credits may transfer, sell, or assign the tax credits and such transferees are permitted to further transfer, sell, or assign the tax credits in whole or in part.

(e) The tax credits may be allocated among some or all of the partners, members, shareholders, or other owners of any partnership, limited liability company, S-corporation, or other similar pass-through entity based on the partner's, member's, shareholder's, or other owner's pro rata share of the entity or in any manner agreed to by the partners, members, shareholders, or other owners without documenting an alternative distribution method.

(f) The assignee of the tax credits may use acquired credits to offset up to one hundred percent (100%) of the state tax liability imposed.

(g) The department shall establish such rules as necessary to ensure that any person to whom a tax credit is assigned has only such rights to claim the credit under the terms that would have applied to the entity to which the tax credit was originally assigned. Such rules must be promulgated in accordance with the Uniform Administrative Procedures Act, compiled in title 4, chapter 5.

SECTION 5. Application and Certification.

(a) To obtain approval for tax credits allowed under Section 4, a person must submit an application to the commission. Each application for approval shall be reviewed in the order of the date in which the applications were received, with the oldest date and time receiving priority. Applications postmarked on the same day must undergo a lottery process created by the commission to determine the order in which such applications shall be reviewed. Each application must be reviewed by the commission for approval in a process determined by the commission. If an application is removed from the review process, the commission shall notify the taxpayer in writing.

(b) If the commission approves an application, the person shall be notified in writing of the amount of credits approved by the commission.

(c) All persons with applications receiving approval shall commence rehabilitation within eighteen (18) months of the date of issuance of the letter from the commission granting approval for the tax credits.

(d) To claim the credit authorized under Section 4, the owner must notify the commission that the substantial rehabilitation has been completed and certify the qualified rehabilitation expenditures incurred with respect to the rehabilitation plan. In addition, the owner shall provide the commission with a cost and expense certification,

prepared by a licensed certified public accountant that is not an affiliate of the owner, certifying the total qualified rehabilitation expenditures. If the qualified rehabilitation expenditures exceed one million dollars (\$1,000,000), the cost and expense certification must be audited by the licensed certified public accountant. The commission shall verify that the cost and expense documentation provided by the owner matches the qualified rehabilitation expenditures reported on the application and review the completed work's compliance with the rehabilitation plan. Within ninety (90) days after receipt of the cost and expense documentation from the owner, the commission shall forward a copy of the application and the cost and expense certification to the department and issue a tax credit certificate; provided, that the amount of the tax credit certificate cannot be greater than the amount of the tax credit reservation.

(e) In addition to the requirements in subsection (d), a person shall also provide to the commission any employment-related data as deemed necessary by the commission, including, but not limited to, the number of construction jobs, the number of anticipated jobs to be created on site, anticipated use of the completed building, anticipated number of employees, and pre- and post-assessed property valuation.

(f) The commission shall educate the public on the availability of this program using communication methods as determined best by the commission.

SECTION 6. Rules; fees.

(a) Within one hundred eighty (180) days of the effective date of this act, the commission shall promulgate rules in accordance with the Uniform Administrative Procedures Act, compiled in title 4, chapter 5, and adopt the forms necessary or convenient to implement this part.

(b) The commission may adopt a fee for the applications and certifications required by this part or by any rules promulgated pursuant to this part. The fees shall be receipts of the commission to be used for performing its duties under this part.

SECTION 7. Beginning February 1, 2026, the commission shall submit a report to the governor, the speaker of the senate, the speaker of the house of representatives, the fiscal review committee, the finance, ways and means committee of the senate, and the finance, ways and means committee of the house of representatives that details the commission's activities for the prior fiscal year. The report must also include, but not be limited to, all plans and projects, in addition to an accounting of revenues by source, expenditures, and project, and any recommendations for further legislative action.

SECTION 8. The headings to sections, chapters, and parts in this act are for reference purposes only and do not constitute part of the law enacted by this act. However, the Tennessee Code Commission is requested to include the headings in any compilation or publication containing this act.

SECTION 9. This act shall take effect upon becoming a law, the public welfare requiring it.