COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0868-01
Bill No.: SB 179
Subject: Taxation and Revenue - Income; Housing; Revenue Department
Type: Original
Date: February 5, 2013

Bill Summary: This proposal would create a one-time individual income tax deduction for the purchase of a new home used as the principal residence of the taxpayer for at least two years.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(More than $236,559)	(More than $1,199,397)	(More than $1,201,414)
Total Estimated Net Effect on General Revenue Fund	**(More than $236,559)**	**(More than $1,199,397)**	**(More than $1,201,414)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	5	5	5
Total Estimated Net Effect on FTE	**5**	**5**	**5**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.145, RSMo - Personal Income Tax Deduction for New Home Purchase

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

BAP officials noted that this proposal would create a temporary tax deduction for the construction of a new single family residence, if that construction is started and completed between 8/28/13 and 12/31/15. The deduction would be limited to 1/3 of the purchase price or $166,667. Thus, at the full marginal 6% tax rate, the tax benefit would be limited to $10,000.

BAP officials cited US Census Bureau Building Permits Survey Monthly Data, noting that 9,452 permits for single family housing units were issued in Missouri in the 16-month time period that ended with November, 2012. BAP officials also noted that the US Census Bureau's American Community Survey indicates 65% of housing units are owner-occupied. Assuming the number of housing permits issued is comparable over the sixteen months included in this proposal, and the ratio of homeowners is similar, this proposal could reduce General and Total State Revenues by ((9,452 x 65%) = 6,144 home sales x $10,000) = $61.4 million.

ASSUMPTION (continued)

Oversight notes that the number of sales in the BAP response is for a sixteen month period and the indicated annual sales would be (6,144 x 12/16) = 4,608. The indicated annual revenue reduction would be ($61,400,000 x 12/16) = $46,050,000.

Officials from the **Department of Revenue (DOR)** assume that from January 1, 2013 to December 31, 2015, this proposal would allow a filer to claim a deduction for the purchase of a qualified principal residence. The deduction would equal the lesser of 1/3 of the purchase price of the qualified principal residence, or $166,667. If the deduction amount exceeded the filer's total Missouri Adjusted Gross Income for the year in which the deduction is claimed, any unused deduction could be carried forward to subsequent tax years.

If a filer disposes of that residence or no longer uses the property as a principal residence, any remaining unused deduction would be forfeited and the filer would be subject to an addition to Missouri adjusted gross income for amounts previously deducted.

DOR could create rules to implement the provisions of this section, and the program would sunset December 31, 2015 unless reauthorized by the General Assembly.

The Department would need to make form changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

Fiscal impact

DOR officials assume this proposal would have an unknown negative impact on Total State Revenue. The deduction created by this proposal could be as great as $166,667 per claimant. If the full deduction of $166,667 is claimed by a qualified taxpayer, that taxpayer could have a tax reduction as large as $10,000. DOR officials cited a United States Census Bureau report which indicated that 369,000 new homes were sold in 2012. DOR officials assume that 2% of those homes, or 7,380 were sold in Missouri. If each new home purchase was eligible for the full deduction, it would have an annual impact of (7,380 x $10,000) = $73,800,000 per year.

ASSUMPTION (continued)

Administrative impact

DOR officials assume Personal Tax would require two additional Temporary Tax Employees for key entry; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 errors; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. In addition, Collections and Tax Assistance (CATA) would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional calls annually to the delinquent tax line, plus CARES equipment and license; one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional calls annually to the non-delinquent tax line, plus CARES equipment and license; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the Tax Assistance Offices, plus CARES equipment and license.

The DOR response included two additional temporary employees, five additional full - time employees, and the related benefits, equipment, and expense. The estimated costs totaled $217,043 for FY 2014, $219,936 for FY 215, and $222,242 for FY 2016.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2014 could be reduced by roughly $6,000 per new employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight notes that the earliest date to begin construction of a qualified new home under this proposal would be August 28, 2013, and assumes that a home could be completed and occupied by December 31, 2013. Since Missouri personal income tax returns are primarily filed on a calendar year basis and the qualifying construction dates are in 2013, the first deductions under this program could be claimed on 2013 income tax returns which would be filed in FY 2014.

ASSUMPTION (continued)

Oversight will include costs for the Department of Revenue for six months of FY 2014 and all of FY 2015 and FY 2016.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $13,633, based on 540 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

Oversight assumptions

Filers who would be able to purchase a home for $500,000 would be able to deduct one - third of that amount or $166,667 and would be able to reduce their income tax obligation by up to ($166,667 x .06) = $10,000. Oversight has used data provided by the University of Missouri, Economic Policy Analysis and Research Center to estimate the number of filers who would be able to take the maximum deduction available under this program; our estimate indicated that about 48,000 filers would have sufficient taxable income to do so.

According to Census Bureau data, the national average new home price was approximately $225,000 in 2011, and Oversight assumes that Missouri prices are consistent with the national average. Further, Oversight notes that there was little change in new home prices from 2011 to 2012. Under this proposal, the buyer of a new home could claim a deduction for one - third of the new home price or ($225,000 / 3) = $75,000 which would provide a reduction in the buyer's income tax up to ($75,000 x .06) = $4,500.

At the average new home sales price, the DOR estimate of new home purchases would indicate a revenue reduction of (7,380 x $4,500) = $33,210,000. The BAP estimate of new home purchases would indicate an annual revenue reduction of (4,608 x $4,500) = $20,736,000.

ASSUMPTION (continued)

Finally, Oversight notes that some buyers could purchase a new home but not have sufficient taxable income to use the full deduction in one year; those buyers would be able to use the full deduction amount over a number of subsequent years. Accordingly, this program could result in revenue reductions for several years after FY 2016 but those amounts will not be included in this fiscal note.

Oversight notes that twenty-three claims at the average sales price would result in a revenue reduction of $100,000, and will include a revenue reduction in excess of $100,000 for FY 2014. For FY 2015 and FY 2016, Oversight notes that 222 claims at the average sales price would result in a revenue reduction of (100 x $10,000) = $1,000,000. Oversight will indicate a revenue reduction in excess of $1 million per year for FY 2015 and FY 2016.

Oversight notes that this program could result in greater sales tax revenues for the state and local governments, and could eventually result in greater local property tax revenues. Those additional revenues are considered an indirect impact and will not be included in this fiscal note.

FISCAL IMPACT - State Government	FY 2014 (6 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Section 143.145, RSMo.			
Salaries and wages (5 FTE)	($65,640)	($131,280)	($132,593)
Benefits	($33,309)	($66,618)	($67,284)
Equipment and expense	($37,610)	($1,499)	($1,537)
Total costs - DOR	($136,559)	($199,397)	($201,414)
FTE change - DOR	5 FTE	5 FTE	5 FTE
Revenue reduction - personal income tax			
Section 143.145, RSMo.	(More than $100,000)	(More than $1,000,000)	(More than $1,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $236,559)**	**(More than $1,199,397)**	**(More than $1,201,414)**
Estimated Net FTE Impact on General Revenue Fund	5 FTE	5 FTE	5 FTE

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses in new home construction.

SS:LR:OD

FISCAL DESCRIPTION

This proposal would create a personal income tax deduction for the purchase of a new home built between August 28, 2013, and December 31, 2015. The deduction amount would be limited to the lesser of one-third the purchase price or $166,667. A taxpayer could claim this deduction only once. Any deduction amount which exceeds the filer's taxable income could be carried forward until the full amount is deducted. If a filer takes the deduction but does not use the home as a principal residence for two years, the filer would be required to add any deductions taken to their adjusted gross income.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Revenue

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SS:LR:OD